

THE DESIGN PROTECTION IN SHIPBUILDING
SECTOR:
EUROPEAN UNION REGULATION N. 6/2002 AND
CONTRACTUAL PROTECTION

INDEX

THE LEGAL NATURE OF SHIPBUILDING CONTRACT IN THE INTERNATIONAL AND DOMESTIC LEGAL FRAMEWORK

A GENERAL INTRODUCTION TO THE SHIPBUILDING MARKET.....	1
THE LEGAL SOURCES AND REGULATION OF THE SHIPBUILDING LAW: INTERNATIONAL AND DOMESTIC LAW	4
STANDARD MODEL ESSENTIAL CLAUSES	6
THE NATURE OF SHIPBUILDING CONTRACT, ITS STATUTORY PROVISION: ENGLISH AND ITALIAN JURISDICTIONS	17
CONCLUSION.....	27
THE STRUCTURE AND LEGAL QUALIFICATION OF SHIPBUILDING CONTRACTS INTRODUCTION: THE QUALIFICATION	29
THE ENGLISH LEGAL NATURE OF SHIPBUILDING CONTRACT: CASE LAW APPROACH AND DEVELOPMENT	30
ITALIAN SENTENCES ON SHIPBUILDING AGREEMENT: BETWEEN A CONTRACT AGREEMENT AND A SALE OF GOOD AGREEMENT.	38
A COMPARATIVE VIEW OF ITALIAN AND ENGLISH SHIPBUILDING AGREEMENT: CONCLUSION.....	41

SHIPBUILDING AND INTELLECTUAL PROPERTY

THE IMPORTANCE OF INTELLECTUAL PROPERTY IN THE EUROPEAN SHIPBUILDING MARKET.....	45
GENERAL FEATURES OF EACH IP'S RIGHTS	48
INTELLECTUAL PROPERTY AND SHIPBUILDING: IP'S RIGHTS FITTING WITHIN THE SPECIFIC SECTOR	53
IP'S RIGHTS ENGLISH AND ENGLISH SHIPBUILDING CASE LAW: WHAT THEY HAVE DISCUSSED ABOUT?	55
CONCLUSION.....	61

THE INTELLECTUAL PROPERTY LEGAL FRAMEWORK PUBLIC AND PRIVATE METHOD OF PROTECTION

INTERNATIONAL SOURCES AND FRAMEWORK	64
EUROPEAN SOURCES AND FRAMEWORK.....	70
NATIONAL SOURCES AND FRAMEWORK	73

THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: CONTRACTUAL CLAUSES	74
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THE PUBLIC PROTECTION OF DESIGN

THE EUROPEAN TITLES OF PROTECTION EU REGULATION 6/2002	81
NATIONAL SYSTEM OF PROTECTION	90
NATIONAL COPYRIGHT AND UNFAIR COMPETITION	92
PRIVATE INTERNATIONAL LAW. THE LAW APPLICABLE TO CONTRACTUAL OR NON CONTRACTUAL OBLIGATION	97

CONCLUSION

A COMPARATIVE APPROACH TO THE LEGAL QUALIFICATION OF A SHIP. A UNIQUE QUALIFICATION SINCE THE ROMAN LAW UNTIL NOW	99
THE UNIFIED DESIGN PROTECTION OF SHIP: NO COMPLEX PRODUCTS, NO FUNCTIONAL DESIGN AND NO EXCLUSION FOR ANY PARTIES RELATED TO NAVIGATION	97
THE NON CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY. THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: DÉPEÇAGE AND POST-CONTRACTUAL OBLIGATION	105
CONCLUSION	109

TABLE OF CASES	111
-----------------------------	-----

BIBLIOGRAPHY	115
---------------------------	-----

ONLINE RESOURCES	123
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CHAPTER I

THE LEGAL NATURE OF SHIPBUILDING CONTRACTS IN THE INTERNATIONAL AND DOMESTIC LEGAL FRAMEWORK.

1.1. A GENERAL INTRODUCTION TO THE SHIPBUILDING MARKET 1.2. THE LEGAL SOURCES AND REGULATION OF THE SHIPBUILDING LAW: INTERNATIONAL AND DOMESTIC LAW 1.3. STANDARD MODELS: ESSENTIAL CLAUSES 1.4. THE NATURE OF SHIPBUILDING CONTRACT, ITS STATUTORY PROVISION: ENGLISH AND ITALIAN JURISDICTIONS. 1.5. CONCLUSION

1.1 A GENERAL INTRODUCTION TO THE SHIPBUILDING MARKET.

Complexity is the word explaining the entire maritime world¹. Transactions are not only economically expensive; they are technically and legally complex as well. These difficulties are challenges faced by professionals involved in the business. In order to manage these problems, customary practices have been developed. In this paragraph, instead of dealing with a specific legal framework, we aim to explain both difficulties and adopted solutions briefly. The complex industry at the hand involve different professionals (managers, lawyers, accountants, engineers, project managers, brokers etc. etc.), who have developed some standard shipbuilding forms so called “standard form”. These regulate any relevant features of shipbuilding transactions. In other words, the standard form is a useful template, which taking into account the most important shipbuilding issues, helps businessmen to deal with a contract drafting activity.

The private autonomy is an important characteristic of every maritime contract therefore it has a great importance in the shipbuilding form². The large use of private autonomy, as a legal basis for most of the maritime contracts, and the large preference of legal

¹ C.HILL “*Maritime law*” LLP, 2003, “*Shipbuilding contracts by definition concern the sale of future goods*” in fact it has been affirmed that due to the fact that contract to construct a new ship, a partial ship or to bring the vessel to function as intended it is not sufficiently related to sea commerce and/or navigation the shipbuilding contract are non-maritime contract and they are not within the Admiralty jurisdiction. The United Kingdom regulates the shipbuilding contract as a sale of goods see D.J.ATTARD “*The IMLI manual n international maritime law- shipping law*” OXFORD, 2016, the presence of a link within sea commerce or international trade is the main cause of the lack in international or unified regulation of the shipbuilding activity.

² G.M. BOI “*I contratti marittimi. La disciplina standard dei formulari*”, Giuffrè Editore, 2008 and F.LORENZON “*Yacht and Yachting law*” Informa, 2012, the author affirms that parties are very affirmative about English law because the “Sale of Goods Act” as we see is the act regulating shipbuilding transaction, gives a large room to private autonomy.

order where private autonomy is used as a legal basis with a large extent are the consequences of lack of interest in domestic, regional and international regulation of shipbuilding contract. This lack has created a *vulnus* in the international regulation of shipbuilding contract. There aren't specific legal tools, at any level, regulating the sector at the hand: international, regional or domestic³. Every legal system has its own legal institution although none of these are exclusive for shipbuilding sector. In today business, the complexity and a legal *vulnus* are the reasons of a large use of private autonomy.⁴

The complexity is equally spread along the entire building process.⁵ This is the reason of beginning every negotiation with a proposal based on a standard contract, as it is common in international transactions⁶. The main aim of standard form is provide parties with a complete and trustworthy template in order to tackle all the relevant chapters of the agreement: description of the parties, of the vessel, financial issue, project managing process and legal issue which is expected to cover also the post-delivery insurance and responsibility. The worth of regulation is guaranteed by drafter's background. These are the most important firms, advisers and trade associations involved in the sector. The private autonomy with the templates has created the legal framework of shipbuilding agreement.

Standard forms are considered as a safe ground for parties undergoing a negotiation because of the experts involved in the drafting activity. The academic community has tried to schedule all clauses used in different templates, however, it is hard to provide a

³ There are no treaties, conventions or unified law tools specifically related to shipbuilding industry at the international level. Today the sector is international as never. The international element might be different one and shipbuilding firms are open to foreign investments, as it or the case of some Chinese direct investment in Italian or European market or Italian firm investing abroad. The internationalization of the market increases the number of cross border shipbuilding contract quickly. In this situation advisers might use a misleading definition. Different legal culture might be a cause of a misleading contractual interpretation. The legal nature of shipbuilding contract might be completely different among different jurisdictions. The question over the nature is not naïve, it is strictly related to remedies at parties' disposal, see https://ec.europa.eu/growth/sectors/maritime/shipbuilding_en, "Shipbuilding intellectual property handbook" CESA, 2008.

⁴ The importance of private autonomy in the Italian maritime contract is recognized by the art.10 of the Navigation Code and in the Rome Convention which is now the Regulation n. 593/2008. The effectiveness and enforceability of contract close are based on the contract governing law as well as the use of private autonomy.

⁵ F.LORENZON R.COLES "The law of yachts and yachting" Informa, 2014, The A. affirms that that the complexity depends on each building process this expression refers also to legal, economic and financial analysis the project.

⁶ Y.BAATZ "Maritime law" Sweet and Maxweel, 2011, S.CURTIS "The law of shipbuilding contract" LLP, 1991, F. LORENZON R. COLES "The law of yachts and yachting" Standard forms sometimes are proposed on a take or leave bases, other times owner and builder negotiate it.

complete and exhaustive list of all standard clauses used in templates⁷. These might miss precision. The common features of template are: the use of English as a common language, the governing law is most of the times the English law (this fact brings in the agreement and in its interpretation the general principles of the law of United Kingdom⁸). All these things considered, the shipbuilding transaction is an international transaction and it is difficult, if not impossible, to find one of these without foreign elements. Whereas the international elements of this market have been increasing, as never before, the international community has not dealt with this sphere of the industry⁹. States, also jurisdiction influencing a lot the maritime market, have been interested in regulating another side of the shipbuilding activity, the public one such as for instance: pollution, safety or registration and classification¹⁰. The *Vulnus* has been fixed by an intense use of private autonomy, which has been fostered by the English law positive attitude to it. Different types of associations have developed standard template, the most famous template are: the Baltic and International Maritime Council, the Association of West European Shipbuilders, the Shipbuilders Association of Japan, the Norwegian Ship owner Association, the Norwegian Shipbuilder association, Swedish Shipbuilders Association, the Lloyd's Council. Scheduling or describing standard clauses is a useless

⁷ As we see at the end of this chapter, we are not in front of *lex mercatoria* in which the scheduling activity would be very useful in order to understand the extent of costume and its *opinion iuris*.

⁸ F.GALGANO "*Lex Mercatoria*" in Enciclopedia del Diritto, 2001, A.LUPONE "*Diritto internazionale privato*" in Enciclopedia del Diritto, 2001. This is a dangerous aspect because terms and clauses must be intended with their common law meanings. We cannot affirm that shipbuilding transaction is regulated by *lex mercatoria*. Even if, there is a set of standard form this just contain a balanced division of duties and responsibilities. In any case, contractual breach is regulated by the contract governing law which is usually the English one. Another aspect to be understood is the fact that even though these templates are used in almost every international transaction, they are totally influenced by common law principles.

⁹DG GROWTH European Commission https://ec.europa.eu/growth/sectors/maritime/shipbuilding_en "*absence of effective global trade rules*".

¹⁰"*LeadrSHIP 2020*" European Commission, 2013 Once again, the EU has a representing party of its member states affirmed a strategic view which is based on public international issue and or public international forum. It has no intention to act on private side of the market because it believes that acting on that side creates a fair market. The main forums of discussion mentioned in the above document are: the OECD Working group on Shipbuilding, the World Trade Organization, the International labour Organization. The least, the international organization at the hand is responsible for drawing up and overseeing international labour standard and the members of WTO has provide a "*consensus on core standards to the ILO*." (https://www.wto.org/english/thewto_e/whatis_e/tif_e/bey5_e.htm) although there isn't a specific discussion on shipbuilding sector and it doesn't feel as necessary. The WTO is considered a last resort because of the absence of a specific international Shipbuilding Agreement. The OECD Working Party on Shipbuilding (WP6) is the only international government to discuss shipbuilding matters (<http://www.oecd.org/sti/ind/shipbuilding-working-party.htm>) Many important discussions have taken place in this forum, working towards establishing a fair market and the OECD agreement was a milestone but unfortunately it could not enter into force as the USA failed to ratify it. A renewed effort to negotiate a new agreement was promising, unfortunately they were unable to be concluded successfully and finally abandoned in 2010. Today, the role of OECD in this sector needs to be redefined.

and a time-wasting activity¹¹. However, it is important to introduce the readers to some of these clauses in a limited extent.

The very first conclusions, we might draw, are related to the main features of the business. Today, it is internationalized as never before. It has a high degree of complexity. There is no specific international, regional, unified or domestic regulation of the activity¹². The common law is the main legal source of this sector because it is being very affirmative with the private autonomy. There is a large use of templates drafted by the market players. These should not be considered as a non-state regulation or *lex mercatoria*, they are just template forms. In cases of breach of the contract, the party applies procedures and instrument at their disposal on the basis of the law governing the contract.

In the next paragraph, we aim to introduce the legal framework of shipbuilding activity beginning from the international level to the domestic one. We aim to explain the main aspects of those templates and to understand the way they are filled in by private autonomy which is, on the basis of the extent given to it by the national jurisdiction, the real source of any duties and responsibilities. The aim is to understand the nature of the shipbuilding contract in the English and Italian jurisdiction and for doing this, we will introduce some contractual clause and statutory provisions under the English and the Italian law¹³. The first aim is to prove the absence of any kind of customary or *opinion iuris* on those templates and by doing this we aim to affirm the important role of domestic legal tools, in particular private international tools, as they are used by private autonomy.

1.2 THE LEGAL SOURCES AND REGULATION OF THE SHIPBUILDING LAW: INTERNATIONAL AND DOMESTIC LAW.

In international trade, characterized by an extended use of foreign principles and languages, we need to make the meaning of shipping clearer. This has a different meaning in different jurisdiction. Common law literature and civil law literature have a

¹¹ G.M.BOI “*I contratti marittimi*”, S.CURTIS “*The law of shipbuilding contracts*”, in these books, particularly in the second, there is a description of clauses contained in a contract although the Author is focused on a contract which, in his view, might be the best one. No other modern book in sector has shared this approach. They describe the agreement without no reference to a specific contract.

¹² See footnote number 10, this is the cause of an unfair market.

¹³ The Italian legal order is possibly a unique in the world because it has a statutory provision on shipbuilding nature, however this legal definition has been stressed by doctrine and jurisprudence. However, the statutory nature of shipbuilding agreement has been stressed by the activity of Courts.

different approach to the subject¹⁴. This different approach has a great consequence on market value. The trade-law has reached a level of uniformity and it is a stage for a great development and return on investments. As we said above, this is not typical of shipbuilding sector where players share a common ground and values but they sometimes have different legal background so that the trading might not be so easy. The absence of uniformity causes a lack of competitiveness in the market itself and of the players. Players in general aim to share a common legal ground to achieve more development, more growth and more welfare in trade¹⁵. We might compare land, rail, road or even construction cases to shipping cases but this comparison is not right because the shipping cases are different from land, rail and road cases and even more different to construction cases¹⁶. The shipping cases, within its most comprehensive meaning, and in particular shipbuilding must be regulated under conventional regulation or a unified one because, as it is done for some cases for instance in case of collision, everything is, more simply, regulated by the state flag criteria. Convention or uniform regulation is the best tool in order to find uniform solution among different jurisdictions so that international trade might be more developed only in an international regulated market. This conclusion is the one written in by the European Commission in the paper “LeaderSHIP 2020”, which is quoted above. The distortions of the market might be fixed with a common legal framework where players should take their business as a consequence we would have same words meaning, same principals and a unique leading way to manage the shipbuilding activity from the legal point of view.

The international community has tried to achieve this uniformity within a uniform regulation protecting some shared values or problems for instance regarding the environment¹⁷. Even if the shipbuilding sector has a great importance in European market, and even more in the west side of the world, it has not been considered as an issue to be regulated at international level. Any attempt to provide an international discussion on it has been unable to produce a useful legal tool, as we have mentioned on OECD working group on shipbuilding. States have focused their attention on the public sphere of shipbuilding sector for instance ship registration, maritime liens and

¹⁴ D.J.ATTARD “*The IMLI manual on international maritime law- Shipping law*”

¹⁵ D.J.ATTARD “*The IMLI manual on international maritime law- shipping law*”

¹⁶ D.J.ATTARD “*The IMLI manual on international maritime law- sipping law*”

¹⁷ D.J.ATTARD “*The IMLI Manual international maritime law- Shipping law*” , F.BERLINGERI “*Le convenzioni internazionali di diritto marittimo ed il codice della navigazione*” GIUFFRÈ, 2009, F.BERLINGERI “*E’ possibile ovviare alla frammentazione del diritto marittimo uniforme?*” Il Dir.Mar. 2013, M.DARDANI “*Trattative e perfezionamento dei contratti di costruzione e di compravendita di nave in diritto italiano e in inglese*” in Dir. Mar. I/20.

mortgages, arrest of ship, maritime safety, maritime labour, maritime collision, salvage, wreck removal, limitation of liabilities and environment protection¹⁸. The shipbuilding issues have been taken into account by governments in respect of its trade related aspects so the governments have been focused on shipping, and as a consequence on shipbuilding, as a method of transportation. This approach can't be blamed because the shipbuilding sector has not been characterized by foreign elements since the development of a globalized shipbuilding markets¹⁹. In this situation, where legal uniformity is still to achieve, standard model are a great jump ahead in the direction of a more uniform or harmonized regulation and it might be a ground for future international convention²⁰. Until that point, we have to use standard forms keeping in mind that they are not an instrument of customary law or source of *lex mercatoria* so that they have slight differences. They are templates containing all relevant shipbuilding issues which are regulated in order to create an equal share of duties and responsibilities under a governing law which is, for historic and legal reasons, the English law²¹.

1.3 STANDARD MODELS: ESSENTIAL CLAUSES.

The most famous templates developed by shipbuilders associations are: the standard shipbuilding contract adopted by the Association of European Shipbuilders and ship-repairs, the CMAC Standard adopted by the China Maritime Arbitration Commission, the MARAD Contract adopted by the United States Department of Commerce Maritime Administration, the Norwegian Standard Form Shipbuilding contract, the NEW.BUIL.CON. Standard New Building Contract adopted by the

¹⁸ D.J.ATTARD "*The IMLI manual international maritime law- shipping law*"

¹⁹ "*Shipbuilding intellectual property handbook*"

²⁰ C.HILL "*Maritime Law*" the A. affirmed "*there is a strong argument for pushing shipbuilding contracts more forcefully than hitherto on the agenda of international discussion*"

²¹ D.J.ATTARD "*The IMLI manual international maritime law- shipping law*" the A. affirmed "*The objective of developing this gaps in certain areas where there had been a lacuna of ambiguity in the terms of the old terms of contracts.*" contract was to provide builders and buyers with an alternative choice of contract to those mainly use. It offers the parties a modern, clearly worded, balanced and comprehensive shipbuilding contract so that the parties can easily identify their rights and obligations and reduce the risk of disputed on matters of interpretation of contractual terms [...] it provides a solid structural basis for negotiations. Liabilities are equally apportioned between the parties, it also deal in detail with any difficult aspects of shipbuilding and fills the gaps in certain areas where there had been a lacuna or ambiguity in the terms of the old terms of contracts."

BIMCO and the Standard contract adopted by Japanese shipbuilder association named SAJ²².

The contractual scheme is almost the same among these. The essential chapters are: i) vessel's description, ii) financial clauses, iii) production process, iv) delivery clauses, v) legal clauses, vi) sundry clauses²³. Each chapter touches a relevant issue or process of the pre/ post delivery and production.

The Vessel description contains the technical description of the object of the contract. The financial chapter deals with all the commercial²⁴ issues. In the production clauses the building project management is addressed. The delivery step is described in its clauses, which is one of the most important clause and steps in the process because of its consequences on fiscal matters, liability, and warranty²⁵. IP rights, governing law and jurisdiction are regulated in the legal chapter. The sundry section contains essential clauses because there we found: information on notices, effective date of the contract, assignment chapter, option and third party rights.

The Vessel description²⁶ specifically contains information on: parties²⁷, registration rules, shipyard choice and vessel performances. The shipyard choice is an important topic²⁸. The choice is made on the basis of commercial, political or even logistic reasons²⁹. This is usually taken on the basis of some practical or statistical figures: number of strikes per year, production history, logistic position and infrastructural links might be some important data on which a ship-owner must convey his choice for a specific shipyard. A take-over right is usually entitled to the builder, some other templates give the builders possibility to demand for a new collocation of the activity which must be authorized by the ship-owners, although they usually cannot refuse an authorization with a meaningful reason. The description contains the general

²²These are the main schemes, firms or advisers these agreements take inspiration from. Although, we can highlight one some of these as the most used.

²³ This list is used in the NEW.BUIL.CON.

²⁴The question of liquidated damages should be regulated here.

²⁵ The builder guarantees the ship as it is delivered and accepted.

²⁶This part is really important in the framework of this thesis as we can affirm later. It contains the outcomes of the entire calculation process.

²⁷ In the MARAD form the shipyard or the shipbuilder must be located in U.S.A. The MARAD contains a *ratione personae* criterion of application. The contract quotes the Merchant Marine Act of 1966 sections 501 and 504. The Merchant Marine Act is, as the Italian Naval Code, not interested in regulating private features of shipbuilding transaction, in fact, everything is developed to the contract. In the standard agreement is written "*pursuant to sections 501(a) and 504 of the Merchant Marine Act, 1936, as amended [...], all the applicable requirements of Title V of the Act, and other applicable provision of law*".

²⁸ We do not refer to this from a private international point of view.

²⁹ "Shipbuilding intellectual property handbook"

performance and these are granted on the basis of research and development activity. Because of previous development process this information has an economic value to be defended. The performances are linked to description. These are formulas, draws, data and time used to elaborate the concept. Under the English law this part has a great importance because of the statutory buyer remedies to a breach of a contract³⁰. The description as a part of the contract is linked to: general plans, drawings and specifications³¹. As it was affirmed in *W.&S. Pollock & Co. v. Donald Macrae*, these are a deep description of what the builders aim to deliver and what the buyer pretend to accept. The shipbuilding description has no legal definition; the only way to formulate a legal definition comes from the wording used in the NEW.BUIL.CON.; this is the only having such a definition. In this contract they are defined as “*the plans and drawings attached hereto or listed and/or described in the specification*” so specification is defined as “*the technical details [contained in Annex B]*”³². Drawings, specifications and general plans are ship’s “*technical details*” and being so important elements of the obligation, they are part of the contract. Due to the importance of such a technical

³⁰ We refer to Section 13 of the Sale of Goods Act 1979 affirming “*where there is a contract for the sale of goods by description, there is an implied condition that goods will correspond with the description*” in this way any describe element is an implied term of the contract.

³¹ S.CURTIS “*The law of shipbuilding contract*” the contract represents only a part of the transaction, in any sale by description it is important that the party should define the good intended to be sold. In shipbuilding project, this description is contained in the specification, according to “*W. & S. Pollock & Co. V. Donald Macrae*” a specification of what the seller is to deliver to the buyer. The source of the specification varies depending upon the type of the vessel. If it is a standard model specification, it comes from the builder. The buyer might ask for some minor modifications. If it is an innovative project specification, it is an outcome of builder and buyer cooperation.

³² S.CURTIS “*The law of Shipbuilding contracts*” page 14 the drawing, plans and in general technical description face the so-called design risk. Problems within the design risk often do not emerge until it has commenced trading, therefore consequences are more serious than any other defect. See for example the quoted case of *Re Oil spill by the “Amoco Cadiz” off the Coast of France* [1984] 2 Lloyd’s rep. 304 where an U.S.A. court held a Spanish shipbuilder of a tanker jointly liable with the owner for pollution damage caused by an insufficient and failed bolts in the vessel’s steering linkage. The fact that the classification society had approved the design did not reduce the shipbuilder’s liability. Usually standard forms don’t directly address the design risk. In English law the parties are free to allocate the risk as the wish. However if a contractual term pursues an exclusion or restriction of liability it attracts the operation of Unfair Contract Term. The Unfair Contract Term Act applies certain restriction upon the rights of contracting parties to exclude liabilities, it does not apply to international supply contract, which are defined as those made by parties whose places of business are in different states in respect of which i) the act of offer and acceptance has been done or ii) the contract provide for the goods to be delivered to the territory of a state other than within whose territory the acts of offer and acceptance were done. If the buyer provides the design, the contract will contain a clause excluding builder’s liabilities. Where there is no express provision it will be the court or arbitration tribunal to establish parties’ intentions. Without special terms the builder’s basic commitment imports an obligation to design the ship as *Aktiebolaget Gotaverken v. Westminster Corporation of Monrovia and another* [1971] 2 Lloyd’s Rep. 404. However, it might be decided that design and workmanship are two different elements of the contract and they have to be addressed in two different ways. The situation is different if a third party provides the design. In this case the builder is not willing to give any guarantee on the adequacy of the design for this case see *Dixon Kerly Ltd. V. Robison* [1965] Lloyd’s Rep 404.

document, the contract regulates any cases of conflicts among them: i) contract-specifications ii) specification-general plans³³. The contract, as the top of hierarchy, prevails on specifications as well as specifications prevail on general plans. Neither the contract or other documents, specification or general plans, prevails on additional elements contained in external document which must consider as emendation of the contract. In order to be less risky, in some contract there is a time-prevailing clause so that the latter prevail over the previous. As a general provision, if a document contains additional elements, the additional elements prevail over any contrary indication³⁴. Some contract describes procedure to be followed in order to avoid any discrepancy among documents; in these is required to sign the plans and the specification before or at the execution of the contract³⁵. In case of discrepancy, a party must bring it to the attention of the counterpart as soon as it comes up³⁶.

Regulation and classification are assessed by external provision out of the parties' disposal. The AWES form prescribes that the vessels must comply with "*rules and regulation and requirements of relevant authorities as set out in this specifications*" in the contract. The builder has the classification process on its own account and costs. The registration expenses are on owner's account although in some form the builder has on its account both classification and registration fees³⁷. A very innovative clause is contained in the BIMCO NEW.BUIL.CO.. This refers to international regulation protecting environment and life at sea. It binds the builder to comply with the INTERNATIONAL MARITIME ORGANIZATION (IMO- an United Nations Special agency) guidelines on Ship recycling³⁸ and IMO Performance Standard for Protective

³³ [...] subject to and in accordance with this contract and relevant with this contract and relevant specifications NO. [●] dated [●] and general plans No [●] signed by both parties which form an integral part of this contract although not attached hereto. In the event of any conflict between this contract and the specifications the provisions of this contract shall prevail. In the event of any conflict between the specifications and the general plans the provision of the specification shall prevail".

³⁴ "notwithstanding the above, it is understood that the foregoing specifications and general plans are complementary and that everything contained in the general plans and not mentioned in the specifications and vice versa is to be understood as included in both the foregoing documents"

³⁵ MARAD TEMPLATE, "The Plans and Specification for the construction of the Vessel have, at or before the execution of this contract, been identified by the signatures of the parties hereto and hereby made a part of this Contract with the same force and effect as though herein set out in full"

³⁶ MARAD TEMPLATE, "Any discrepancy, difference or conflict between the Plans and specifications and the provisions of this contract and any discrepancy, difference or conflict between the plans and the specifications themselves discovered by one party to this contract shall be brought to the attention of other party promptly in writing".

³⁷ The BIMCO form adopts this form. The CAMC form establishes that "all fees and charges incidental to classification and to comply with rules, regulation and requirements of this contract as described in the specification [...] shall be for the account of the seller" but it is given to the party the possibility to agree on a different settlement of expenses.

³⁸ Resolution A.962 (23)

Coatings³⁹, and when applicable the IACS Common Structural Rules for Bulk Carriers and for Oil Tankers. The first resolution is about hazardous materials⁴⁰. The resolution binds “*builder to use materials which can be recycled safely and in an environmentally sound manner*” and “*minimising the use of material known to be potentially hazardous to health and the environment*”⁴¹.

Once the technical description is approved, within the beginning of building process the owners appoint a representative at the shipyard who is in charge of checking the project management and execution. The appointment is a very sensitive decision. It is true that contracts regulate representative’s rights differently. From builder’s perspective, it is a really sensitive point having someone inspecting the process at the shipyard. They have to supervise on the respect of general regulation in the contract execution. The main power at their disposal is the inspection power, which might be limited just for national security reasons. The representative has the right to have a functional office at their disposal at the shipyard⁴². In general these people have no general authority unless is conferred within the contract. In fact, an unlimited power and authority is conferred in the MARAD form. The NEW.BUIL.CO requires a contractual description of the conferred authority and power. As a general provision, the builder has the right to demand for an appointment “*if the builder shows that they are [representatives] carrying out their duties in an unreasonable manner detrimental to the proper progress of the construction of the vessel, in which case the buyer shall make proper replacement as soon as possible*”.

The fact that plans and drawings are part of the contract implies that they might be modified on the basis of a new agreement. The modification is defined differently on the basis of who is asking it. There is no owner’s modification without consequences on

³⁹ Resolution MSC 215 (82) due to the complexity of the resolution’s object the remand to the link of the resolution [http://www.imo.org/en/OurWork/Safety/SafetyTopics/Documents/215\(82\).pdf](http://www.imo.org/en/OurWork/Safety/SafetyTopics/Documents/215(82).pdf) , in general is enough this research that technical aspect of every stage of shipbuilding activities, from design to delivery, must take into account some public concerns related to environment and safety at sea.

⁴⁰ Lloyd’s Register Marine “*A guide to the inventory of Hazardous Materials*” some hazardous materials are asbestos, ballast water, bromochloromethane, blowing agents, carbon dioxide, cathodic protection, chlorofluorocarbon, electrical wire, fire-fighting systems, global warming potential, hydrofluorocarbon, mercury, methane and so on.

⁴¹ Classification societies are expected to provide a green passport statement in listing all hazardous materials utilised in the construction of the vessel. The clause states that a “*a list of the material known to be potentially hazardous shall contain the location and the approximate quantity/ volume of each identified material on board the vessel*” . The importance given to the impact on environment is a common aspect of new developments of the market, the European Commission in the LeaderSHIP document highlighted the importance of a green development for the European Developments.

⁴² The CMAC contains a particular clause regarding the VISA application, being appointed as a representative at a Chinese Shipyard is consider a motive for i) positively consider a VISA application and ii) the appointment bind the shipyard to do its best effort in order to guarantee to the representative.

price and date of delivery⁴³. The builder's modification is scheduled as main changes or minor changes. In the main one, the builder has to ask permission to the buyer and he must wait until a written answer is received. Perhaps, when the builder is dealing with minor changes is entitled to make them without permission. The difference between main and minor change is merely based on the modification it-self. In the first case, it affects specifications, drawings and vessel characteristics and in the second case it affects other aspect of the project. The minor, *"if such changes are found necessary to suit the shipyard local conditions and facilities, the availability of material and equipment, the introduction of improved production methods or otherwise"*⁴⁴, affects the shipyard or other facilities. In case of modification asked by regulatory bodies and classification societies, we have a different situation limited to *"modifications, detections or additions [are] made to the laws, rules, regulations and enactments applicable to the vessels or their interpretations or their application"*. These have the same consequences of the purchaser modification: no postponement of the delivery date because there is an implied contractual term to deliver the contract in accordance with statutory rules and regulation.

Official trials are scheduled during the building process in order to verify the state of the work, its quality and its conformity with contract, public regulations and classification provisions. The trial must be notified in advance and are on the builder's account. The notified people and institutions must give a quick receipt of the communication. The builder has the possibilities to conduct preliminary trial, which are absolutely irrelevant. It is agreed to conduct the trial in case of *"favourable weather conditions"* (due to the importance of weather and sea condition for a trial). Once conducted, the vessel might be rejected or accepted. The acceptance means that the vessel has performed as it was contractually expected by the buyer and in respect of regulation and classification rules. A rejection means that the performances are under contractual or other types of standards. The rejection is allowed in case of any discrepancy with performance or in case of weakness highlighted by regulation authority and classification society⁴⁵.

⁴³ In the MARAD form modification are scheduled as essential changes or not essential changes. In the first case, the contract refers *"to (i) changes in the contract work due to an action of a regulatory body [...] to any promulgation of a new law or rule which renders it illegal to own or operate the unchanged Vessels; or (ii) where the Purchaser has furnished the design, changes in the contract work due to a substantial design defect which will materially reduce the economic life of value of the unchanged Vessels. All other changes shall be "non-essential" changes."*

⁴⁴ AWES Contract.

⁴⁵ The Chinese standard forms put great importance on immigration issues related to trial at sea, The CAMC trial clause regulates Chinese's VISA which must be applied in favour of representatives' of any

The performance is the added value of any ships and even more important it is the guarantee for a specific type of commercial use. They are relevant to the owner's business. The need to contractual guarantee performances is based upon their market significance. If the builder fails to reach the minimum contractual standard he is bound to pay a fee. Instead, if the performances is too low, the owner is entitled to terminate the contract. Even if the issue is at party disposal, it is settled in forms in almost the same way. The relevant perform are: speed capacity, cargo carrying capacity, capacity and fuel consumption. Nowadays it is common to find contracts in which number of passengers, ability to be dock at a specific yard, or capacity to reach a place or carry out a work in any weather or sea conditions are guaranteed performances. The standard forms describe three situations: i) guaranteed performance is not achieved for a minimum measure, ii) guaranteed performance is not achieved for a relevant measure, iii) real performance is better than the guaranteed one. In cases i) and ii) we refer to a situation in which the buyer claims on a builder's liabilities⁴⁶. These differ on the basis of the size of different contractual remedies. In i) the owner is entitled to receive from the builder an amount of money as liquidated damages⁴⁷, in ii), the owner is entitles to

parties involved in trial process. The Chinese public authority is committed to issue the VISA in order to conduct the trial on time, however if there is a delay on account of public authority "*the trial shall be postponed until after the Buyer's representatives have arrived at the seller's shipyard and any delays as result thereof shall not count as a permissible delay*". The VISA will be issued in accordance with rules and regulations of People's Republic of China which as statutory provisions prevail on shipbuilding contract. If in respect of Chinese's regulation the VISA can not be issued the buyer's shall replace the representatives.

⁴⁶ The situation is covered also by the Sale of Goods act section 13.

⁴⁷ M. Woodley "*Osborn's Concise law Dictionary*", Sweet and Maxwell, in which liquidated damages are defined as "*a genuine covenanted pre-estimate of damages for an anticipated breach of contract*" liquidated damages are a category really close to penalty which are defined as "*a sum payable on breach of a term in a contract*" being a liquidated damages clause of a penalty clause makes difference because the penalty clause is not enforceable in common law however in civil law system a penalty clause is enforceable. The name of the clause has no relevance as it is written in M. Woodley "*whether a sum specified in a contract as being payable on breach thereof is a penalty or an agreed sum for damages is a question of construction of the contract judged as at time of the making of it. The use of term penalty or liquidated damages is not conclusive.*" The purpose of a liquidated damages provision is to compensate the injured party within a pre-estimated loss and a penalty clause aims to fix a sum of money not as compensation of a pre-estimated loss but as punishment for a breach of the covenant. The common law approach differs to civil approach about liquidated damages and penalty. There is no clear or unique approach to the issue. At the international level there are different approaches. The UN convention on Contracts for the International sale of goods regulates neither liquidated nor penalty clauses. The convention leaves this issue to domestic law. In the UNICITRAL rule refers to liquidated damages and penalty clause as contract clauses for an agreed sum due upon failure of performance. The Council of Europe issued a resolution on Penalty Clauses in 1971 (Resolution 78(3)). The Council allows clauses as a penalty but the amount must be reduced by the courts if it is manifestly excessive. The Common law approach is described in the *Dunlop Pneumatic Tyre Co. Ltd v New Garage and Motor Co Ltd (1915)*, which is used in every common law jurisdiction except for the Indian where there are no differences between liquidated damages and penalty clauses. In the sentence was stated that a liquidated damages provision will be enforced if at the time of drafting was difficult to determine amount of damages and if

accept a payment as a liquidated damages or to terminate the contract. In case of termination, the builder has “*the right to remedy the deficiency and repeat the trial*” in order to avoid the termination. In case iii) the builder has the right to receive a payment as a premium on the basis of the better standard⁴⁸.

The delivery process is legally relevant and it is described in the contract. It has legal consequences on liabilities and guarantees. The delivery and the acceptance take place upon the payment of a prize on the agreed date. Due to the importance of the delivery and the acceptance, a postponement or an early delivery has consequences on contract prize. In case of an on time delivery, the owner pays the contract prize as reduced by eventual liquidated damages. In case of postponed delivery, the owners will receive the vessels upon a payment of a contract prize as reduced for liquidated damages due for both under standard performance and a deferred delivery. In case of an early delivery, the builder is entitled to receive a premium as set for cases of higher standard performances. The owners have a right to terminate the contract in case of a postponement exceeding a certain number of days⁴⁹. In case of permissible delay the delivery is postponed without consequences. Permissible delay is “*any delay on account of causes specified in paragraph d [contract] of this article or any other delay by reason of events which permit adjustment or postponement of the Delivery date under the terms of the contract*”. As a general principle whatsoever deferments cause a reduction of price, as for instance *force majeure*, whether there are not scheduled as permissible delays⁵⁰. The postponement is equal to “*the cumulative amount of such*

the amount was estimated on the basis of suffered damages. When the two conditions are met, the clause is enforceable and the party will be dispensed of the relevant proof of damages. On the other hand a common law approach considers a penalty clause invalid because the aim of the latter is to punish the party instead of compensate the damage. As a consequence of unenforceability the injured party might sue the other for actual damages. He would need to prove the actual damages. In the civil law the approach is completely different. Party are requested to tailor the amount for each different so each amount is a reflection of the loss. Since the Roman law penalty were allowed without any kind of mitigations. Nowadays, it is common a distinction between liquidated damages and penalty clauses. The decisive moment was the German Civil Code of 1900 which introduced the judicial power to reduce an excessive penalty clause. Many European Civil code has followed the German approach. In Italy the Article 1384 affirms the possibility to an equitable reduction of the contractual penalty. In general in European jurisdictions liquidated damages and penalty are enforceable with a power of the judge to reduce a penalty when it is considered to be excessive or when the linked obligation was partially performed.

⁴⁸ It is worth mentioning that AWES form in case of incorrect fuel consumption, gives the owner the right to ask for a replacement of the machinery as an alternative to receive the liquidated damages.

⁴⁹ In the Chinese covenant a late delivery is not a case for liquidated damages reduction of a contract prize. Instead of a prize reduction the buyer might terminate the contract, if the delay exceeds a certain number of days.

⁵⁰ M. Woodleey “*Osborn’s Concise*” Coercion or irresistible compulsion. It is used in commercial contract to describe events that might happen which would prevent a party from performing the contract

permissible delay” without price reductions. The builder has the obligation to deliver some documents during the delivery: i) protocol of trial, ii) protocol of inventory of the equipment of the vessels, iii) protocol of stores of consumable nature, iv) builders certificates, v) declaration of warranty⁵¹, vi) commercial invoice and vii) drawing and plans pertaining to the vessels as stipulated in the specifications. Once a protocol of delivery, which is an official deed delivered by the builder to the owner containing all the relevant information on the ship, is signed by both parties the delivery is completed. The legal section covers areas like intellectual property, insurance and liabilities, termination of the contract, governing law and dispute resolution. An outstanding topic is the contractual method for protecting intellectual property (IP). The issue is not completely settled by the parties in the contract, it has a meaningless regulation. There are two clauses regarding the IP. The first, usually named “property”, states clear who the owner of a specific right is⁵². The clause aims to exclude any transfer of IP rights. The wording used is “*where they are owned and supplied by a party the party shall retain all copyright, trademark, patent or similar right*” or “*the party shall retain all the rights*”. A non-disclosure agreement binding the other party to “*not bring them [information] to the knowledge of third parties without the prior written consent of the contractor except if and to the extent necessary in the normal operation of the vessel*” or “*not to disclose the same or divulge any information contained therein to any third parties without the prior written consent of the first Party except where it is necessary for usual operation, repairs and maintenance of the vessel and to subsequent owners*” is included. Repairs, maintenance operations are exception to the non-disclosure

by circumstances that are entirely outside control of the parties to the contract, e.g. Act of God, fire, flood, riot Contract has a list of facts or events of force majeure in which are: acts of God, war or other hostilities or preparations therefore civil commotions, riots or insurrections, blockades, embargoes, export or import restrictions, epidemics, strikes, lockouts or other labour disturbances or difficulties whatsoever, earthquakes, landslides, floods, exceptional weather conditions not included in normal planning, prolonged failure of electric current, damage by fire, lightning or explosion, accidental damage including damage to the vessel and time taken to repair such damage, shortage of materials and equipment or inability to obtain delivery thereof, rejection of or defects in materials and equipment which could not have been detected, defects in casting or forgings, or any other delays whatsoever provided in any such case that the delay could not have been by reasonable efforts on the part of the contractor. The Chinese form takes in consideration revolutions and civil commotions. In the MARAD there are also: delay caused by any agency or instrumentality of the United States, by Governments priorities, by civil, naval or military authorities. The NEWBUILDCON includes: later delivery of any defective buyer’s Supplies, Delays to modifications and changes in rules and regulations, an actual or constructive total loss.

⁵¹ In the declaration of warranty, the builder confirms that the ship is free of any burdens, any liens, or other encumbrances.

⁵² We use the expression in order to indicate materials such as specifications, plans and working drawings or plans, technical descriptions, calculations, test results or other data information, design and document concerning the construction of the vessel.

agreement. In this case the owner has the right to bring to the knowledge of third parties information under the IP privilege. The infringement of IP rights is faced by the other clause: *“any manufacture and/or supply according to specifications, drawings, models or other instructions supplied by it shall not infringe any intellectual property rights or third parties”*. The parties agreed on keeping the other indemnified against any cost if the performance of the contract has caused a legal issue on such matter. The Chinese form does not have any specific clause over IP or in general property of information, projects or other data.

The insurance agreement is on the builder’s account from the time of steel cutting until the delivery. The insurance should have same terms of Institute clauses for Builder’s Risk terms⁵³ including War and Strike Clauses. The insurance premium must be no less than the aggregate payments received by the builder plus the value of buyer’s supply at the shipyard. Pursuing the policy of covering an eventual rebuilding cost, the buyer might ask for a more expensive premium, difference in price is on her/his account. In case of damages and no total loss of the vessel, the builder must use any amount received as insurance payment to recover the damages. In case of a total loss there are two options. The parties agree on a reconstruction or the builder shall refund to the buyer both the amount paid by the buyer for the vessel and the value of the buyer’s supply.

The builder is bind to repair or replace any defects⁵⁴. The contract provides the buyer with a guarantee, which covers any part of the ship. The guarantee period is 12 or 24 months. The defects must be discovered within an agreed number of months and the notice of defect must be given before a contractual deadline. The builder must make its best effort to repair damages or to replace the defected parts. The repairs take place at a selected shipyard, which is usually a builder’s yard. If the builder cannot deliver replacement where the vessel is docked or the ship cannot easily arrived at selected shipyard the buyers might demand to repair the ship in another yard on builder’s

⁵³ Shipbuilding is a huge, time and money-consuming project. It has a lot of risks and the builder’s risk insurance plays an important role in the shipbuilding industry. A builder’s risk insurance is an insurance which indemnifies against damage to ships while these are under construction. During the construction a ship can be damaged or destroyed. The shipbuilder has an insurable interest, which is insured under the builder risk insurance. Under English law the clause insures the ship in an agreed period, which is the provisional period. It automatically terminates upon the delivery. In case of delay it is allowed t an automatic continuation by custom up to a fixed number of days after which the shipbuilder must notify the delay and renegotiate a term paying an additional premium.

⁵⁴ We cannot provide a definition of defect but quoting the NEWBUILDCON defect is any deficiencies or defects in the design, construction, material and/or workmanship on the part of the Builder or its sub-contractors.

account. In this case, the builder has the right to verify the extent of the defects. After the examination, the builder must give a written notice to the owner in order to inform him of the acceptance or rejection of its claim. Unless the replacement or repair is unaccepted, the builder must refund all the expenses. It is a builder's right to ask back the replaced or damages part. The buyers might demand to have builder's engineer on board who is called guarantee engineer. The function of this person is to provide – the buyer with assistance during the guaranteed period. The engineer is a builder's full representative and he aims to provide crew with information in order to obtain the best performances by machineries. The builder's liability is limited to defects related to specific aspect of the shipbuilding project, therefore the contracts exclude some types of liabilities and responsibilities. The first case of exclusion regards defects discovered before or at the time of delivery. The guarantee is excluded because the ship has been accepted as it was. In that case the remedies available are: liquidated damages or termination of the contract. The aim of a trial is to detect these defects and to let buyer claim for a repair. Representatives must demand a repair as soon as the defect is discovered, otherwise, once accepted, the owner lost the right to claim a repair for a defection which had been discovered before the delivery. In case of defects discovered after the delivery, the builder's liability is limited to defects related to specific features of the products agreed previously. The builder is not liable *“in contract, tort, breach of statutory duty or otherwise for any defect discovered after delivery of the vessel or any loss, damage or expenses caused as a consequences of such defect (with shall be include, but not be limited to, loss of time, loss of profit or earnings or demurrage directly or indirectly incurred by the buyer”*.

The effect of termination is different on the basis of which part demands it. In the case of a buyer's termination⁵⁵, he is entitled to receive back all sum paid plus interests and the value of buyer's supplied unless he can receive them back. In case of builder's termination⁵⁶ the process is a bit more complex. The builder has the right to retain the buyer's supplies and any other amount paid by the buyer. He has also the right to complete the ship. Once he has finished, he can be sold at the best price at a public or

⁵⁵ He usually has the right to terminate in case of: the guarantor providing the refund guarantee on behalf of the builder is deemed insolvent, the builder fails to perform any work relating to the construction of the vessels for an agreed period of days, the delivery is delayed by more than a certain amount of days, the performances are under standards.

⁵⁶ He usually has the right to terminate in case of: the guarantor providing the installment guarantee of performance is guarantee on behalf of the buyer is deemed insolvent; the buyer fails to pay any sums due under the contract for a certain period of time, the buyers fails to take delivery of the vessels.

private sale. The procedure of payments is different depending on state of work which might be completed or uncompleted.

The law governing the contract⁵⁷ and the dispute resolution clause is chosen by the parties. The parties usually select both English law and jurisdiction. Shipbuilding contracts prescribe alternative dispute resolutions. Those methods are used because of the specialization of involved people. In general the alternative method regards: i) classification societies or regulator authority, ii) expert determination, iii) arbitration and mediation. Classification societies or regulatory authorities rule over questions related to technical descriptions, regulatory and classification issues. On the basis of parties' willingness, other method might be used like for instance: expert determinations, the arbitration and the mediation⁵⁸.

1.4 THE NATURE OF SHIPBUILDING CONTRACT, ITS STATUTORY PROVISION: ENGLISH AND ITALIAN JURISDICTIONS.

⁵⁷ F. LORENZON R.COLES "*The law of yacht and yachting*", the choice of law is important issue because some jurisdictions classify the shipbuilding contract as construction contract. Choice of law clause might express the law of a country, as in the NEWBUILDCON which express reference to English law, or to the law which has a particular connection with the contract at stake, as in SAJ is said that the arbitration in Tokyo would be governed by the law of the country where the vessel in built".

⁵⁸ It is worth to be mentioned that due to the high specialization of the matter, the arbitration is usually trough the London Maritime Arbitrators Association in respect of their rules. See. B.HARRIS "*London Maritime Arbitration*" SWEET & MAXWELL, 2011 and, O.WEILL "*Significant development in shipbuilding disputes within London Arbitration*" <http://www.lmaa.london/uploads/documents/C50ShipbuildingDisputes.pdf>, B.HARRIS "*Ouch- costs in shipping and general commercial Arbitration*" <http://www.lmaa.london/uploads/documents/Costs%20talk.pdf>, M.PAYTON "*Security for and enforcement of arbitration awards*" <http://www.lmaa.london/uploads/documents/C50SecurityandEnforcement.pdf>, C. DEBATTISTA "*Arbitrators' power to order interim measures*" <http://www.lmaa.london/uploads/documents/C50ArbitratorsPowers.pdf>, C.E.EBIRICOS "*Appeal from arbitration awards*" <http://www.lmaa.london/uploads/documents/C50AppealsfromArbitrationAwards.pdf>, D.EVANS "*LMAA ARBITRATIONS: OBSERVATIONS OF A USER*" <http://www.lmaa.london/uploads/documents/C50ObservationsofaUser.pdf>, L.PERSEY "*Effective case managment*" <http://www.lmaa.london/uploads/documents/C50EffectiveCaseManagement.pdf>, L.GORDON "*MARITIME ARBITRATION/ EXPERT WITNESS*" <http://www.lmaa.london/uploads/documents/C50MaritimeArbitrationExpertWitness.pdf>, I.GUANT "*London Maritime arbitration: jurisdiction and preliminary issue*" <http://www.lmaa.london/uploads/documents/Ian%20Gaunt%20paper.pdf>, S.MILNES "*Appeal and challenges to arbitral award under the English Arbitration Act 1996*" <http://www.lmaa.london/uploads/documents/Simon%20Milnes%20paper.pdf>, J.TSATSAS "*Undrstanding Arbitration in London- The role of LMAA*" <http://www.lmaa.london/uploads/documents/Understanding%20Arbitration%20in%20London%20by%20J%20Tsatsas.pdf>.

The following part aims to make a far more clear the legal nature of shipbuilding contract and its consequences in the most important maritime jurisdiction as it is the English one⁵⁹ and in the Italian Navigation Code⁶⁰. A huge and consistent difference still characterizes legal orders all over the world because, as we said before, no supranational agreement has been reached on this topic yet⁶¹. The need of a common international or unified legislation is felt now as never. Even in regard to legal classification the contract has its particularities. If its sale of good nature is clear in common law systems, the same clearness is uncommon in civil law systems where, at least in Western Europe, there are two possible classifications as we see in the following part of the chapter.

A shipbuilding contract is the one regulating a complex and long construction project involving the supply of workmanship, materials and money⁶². The service provided by the builder might start within the design and end within the end of the guarantee period. In a certain way, looking at the shipbuilding contract as a mere supply of workmanship and materials is reductive.

Under the English law, ships are defined as goods. In section 61 of the Sale of Goods Act, Goods are defined as “*goods includes all personal chattels other than things in action and money, and in Scotland all corporeal movables except money; and in particular “goods” includes emblements, industrial growing crops, and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale*”⁶³. The tradition views this as an agreement to sell future goods by description regulated by the Sale of Goods Act and its implied terms, of course⁶⁴. The last mentioned theory is based on *McDougall v. Aeromarine of Emsworth Ltd* in this case Diplock J. affirmed “*it seems well settled by authority that, although a shipbuilding contract is, in form, a contract for the construction of the vessel, it is in*

⁵⁹ C.HILL “*Maritime law*”, F.LORENZON R. COLES “*The law of the yacht and Yachting*“, S.CURTIS “*The law of Shipbuilding Contract*”, D.J. ATTARD “*The IMLI on international maritime law. Volume II: Shipping Law*” .

⁶⁰ We selected the first because of its importance in the sector and the second because it is our native legal framework.

⁶¹ See paragraph 1.2

⁶² F.LORENZON R.COLES “*The law of the yacht and yachting*”

⁶³ another definition is given by M. WOODLEY “*Osborn’s Concise law dictionary*” a goods is a personal chattel and items of property but not land, for the sake of clarity a chattel is any property other than freehold land. Chattels are movable, tangible articles of property and are objects, whether movable or immovable which belong immediately to the person.

⁶⁴ F. LORENZON R.COLES “*The law of the yacht and yachting*” and C.HILL “*Maritime law*” F.LORENZON R. COLES “*The law of the yacht and Yachting*“, S.CURTIS “*The law of Shipbuilding Contract*”, D.J. ATTARD “*The IMLI on international maritime law. Volume II: Shipping Law*” and A.J.VAN STEENDEREN “*Shipbuilding*” GDT 2016

law a contract for the sale of goods act⁶⁵. There are some English authors for which a shipbuilding contract is a hybrid one⁶⁶. They based their idea on two sentences, *Hyndai v Papadopoulos*⁶⁷ and *Stoczina Gdanska v. Latvian Shipping*⁶⁸, given by the House of Lords. The fact in the last case is the following. The shipyard terminated the contract and sued the counterpart for the payment of the two instalments due at the time of rescission. The sued claimed that property has never passed; therefore the builder's failure in his consideration has made them considered the instalments as not due. The Lord Goff legal reasoning departs from an analysis of the contractual consideration, he wrote "*is the contract in question simply a contract for the sale of a ship or is it rather a contract under which the design and construction of the vessels formed a part of the yard's contractual duties[...]?* The design and construction of the vessel form a part of the consideration for which the price is to be paid." A better view is expressed in *Stevens v Hyde*⁶⁹ and *Espen Oino v Silver Yachts Ltd and Others*⁷⁰ in which, parties of the contract have included the design⁷¹ as a general building activity added to the delivery of workmanship and materials as preparatory stages for the delivery and transfer of the property so that it is a part of the consideration remunerated in the contract. Indeed, it is misleading to categorize the shipbuilding contract as a sale of good at all; it pursues a transfer on legal title to a good in return for a payment. The nature of commitments is more similar to non-marine construction project than a mere agreement to sell and purchase.⁷² However, the fact that there are such similarities with construction project does not disqualify the contract as a sale of goods⁷³. On the basis of the mentioned cases, it has been tried to give a hybrid definition of shipbuilding contract. However, very few similarities to non-maritime construction are not enough to disqualify the shipbuilding agreement from being a sale of goods⁷⁴. For this reason it is

⁶⁵ S. CURTIS "*The Law of Shipbuilding*" shipbuilding contract are very similar to sale of existing of secondhand ships.

⁶⁶ D.ATTARD "*THE IMLI MANUAL ON INTERNATIONAL MARITIME LAW*" this doctrine is also quoted in F.LORENZON R.COLES "*The law of yacht and yachting*" and Y. BAATZE "*Maritime law*" and MANDARAKA SHEPPARD "*New maritime law*".

⁶⁷ [1980]2 Lloyd's Rep 1

⁶⁸ [1998]1 Lloyd's Rep 609

⁶⁹ [1989] 245 LMLN

⁷⁰ [2001]All ER (D) 242 (jan)

⁷¹ Quoting F. LORENZON R.COLES "*The law of yacht and yachting*" the design is an interconnected contract, it surveys the termination of the rescission of the building contract on the basis of the terms in the individual contract.

⁷² S. CURTIS "*The law of shipbuilding contract*"

⁷³ As it is affirmed by major English author already quoted.

⁷⁴ F.LORENZON R.COLES "*The law of yacht and yachting*" but it is always affirmed in any maritime/shipping books.

the Sale of Goods Act, rather than construction law, which is used by English court and arbitration Tribunals to determine shipbuilding contract dispute⁷⁵.

English Courts questioned itself arriving at the conclusion that even if the shipbuilding activity might regulate other activities, different from the usual shipbuilding transaction, contract must be considered as a sale of goods. English Courts apply to contract named as shipbuilding agreement the Sale of Goods Act and its statutory provision. They believe that, despite the modern complexity characterizing this activity, it is still correct to legally qualify a vessel as a good and the shipbuilding contract has a contract having the purpose to transfer a legal title in return of a contract prize.

Before moving on into the analysis of consequences caused by the choice of English law as the one governing the contract, we must pay attention to the legal definition of such agreement in the general framework of the Sale of Goods Act. The first type of differentiation under the English law regards the timing of property transfer. It might pass at the time the contract is signed or in a future time⁷⁶. In the latter case, the contract is defined as an agreement to sell⁷⁷. This distinction is not particularly relevant for the shipbuilding industry; the buyer acquires the property of the vessel in a continuous way throughout the construction. The only exception to this kind of property time transfer is the purchase of partly built ship. In this uncommon situation, the title shall vest the buyer immediately because the title relates to an existing good. The second distinction in the act is on type of goods. The act differentiates between unascertained goods and specific goods. The second are identified at the time of the contract is made; the unascertained, are not defined, comprises two sub-categories: i) existing and ii) future goods. Because the definition of future goods provided by the Sale of Goods Act, “*goods to be manufactured or acquired by the seller after the making of the contract of sale*”⁷⁸, a ship is a future good so that the agreement under the Act is called an agreement to sell that agreement might sale by sample or description. In our case, the

⁷⁵ Y. BAATZ “*Maritime law*” affirmed “ Different jurisdictions treat shipbuilding contracts as construction contracts instead with rather important differences in the legal framework surrounding their performance and this the choice of the law applicable to the deal concerned is crucial”, A.J.VAN STEENDEREN “*Shipbuilding in 20 jurisdiction worldwide*” Under US law a contract for construction of a vessel is a contract for a sale of tangible personal property as it is described in the articles 2 and 9 of the Uniform Commercial Code.

⁷⁶ “*Where under a contract of sale the transfer of the property in the goods is to take place at a future time or subject to some condition later to be fulfilled the contract is called an agreement to sell*” Section 2.5 of the Sale of Goods Act 1979

⁷⁷ In our research, the distinction has not a great importance. Both contracts are regulated by the Sale of Goods Act despite the time of the property transfer, the statutory terms contained in the act must be applied to them.

⁷⁸ Section 5.1 Sale of Goods Act

sale would commonly take place by description⁷⁹. At this point, we should define a shipbuilding contract as an agreement to sell future goods by description⁸⁰. No statutory formalities, other than offer and acceptance, intention to create a legal relation and consideration, are requested. When the parties have an agreement reached with the intention to create a legal relation and an economic value, the contract is legally enforceable even without a written commitment⁸¹.

The Statutory norms on conditions, warranties and intermediate terms must be applied to any shipbuilding contract with or without a written commitment⁸². In order to correctly understand the importance of such implied terms we need to move a step into the Act and in particular we need to focus our attention on a section 13 on description and section 14 on satisfactory quality of the Act. A general duty imposes to the builder to deliver the exact promised item. The English Act gives to the parties the opportunity to determine the object of any obligations and the remedies to breach. The extent of the obligation varies on the basis of contractual agreement and statutory terms, which must be applied in case of a contractual breach⁸³. Under English law, contractual terms are classified in three categories: i) warranties, ii) conditions iii) and intermediate term. Warranty clause rises to a claim for damages but not to a right to reject the goods and treats the contract as repudiated⁸⁴. A condition clause is a stipulation going to the root of the agreement giving the right to treat the contract as repudiated in case of breach⁸⁵. The last clause gives the innocent party the right to terminate the contract once it has proved that the breach in goes to the root of the contract.

It is important to understand the criteria upon which we can distinguish between condition and warranties. The common law jurisprudence has developed a test to identify the typology of any clause, quoting Waller LJ⁸⁶ “*a term of a contract will be held to be a condition: i) if it is expressly so provided by statute, if it has been so categorised as the result of previous judicial decision, ii) If it has been so categorised as*

⁷⁹ See paragraph number 1.3 on the relevance of technical description

⁸⁰ The traditional view since *Lee v. Griffin* (1861) B&S 272; *Mcdougall v. Aeromarine* [1958] 2 Lloyd’s Rep 345

⁸¹ A.J. Van Steenderen “*Shipbuilding in 20 jurisdiction worldwide*”

⁸² F. LORENZON R. COLES “*The law of Yacht and Yachting*”

⁸³ F. LORENZON R. COLES “*The law of Yacht and Yachting*” quoting the authors, “*Under the English law contractual terms relating to the goods are in fact considered, either by express choice of the parties, by the relevant market and/ or by the law as being so crucial to the trade concerned that their breach gives the buyer the option of refusing to take delivery of the yacht and terminating the contract.*”

⁸⁴ M. WOODLEY “*Osborn’s Concise law dictionary*”

⁸⁵ M. WOODLEY “*Osborn’s Concise law dictionary*”

⁸⁶ *The seaflower* [2001] 1 Lloyd’s Rep 341

the result of previous judicial decision (although it has been said that some of the decisions on this matter are excessively technical and are open to re-examination by the House of Lords); *iii) if it is so designated in the contract or if the consequences of its breach, that is, the right of the innocent party to treat himself as discharged, are provided for expressly in the contract; or iv) if the nature of the contract of the subject-matter or the circumstances of the case lead to the conclusion that the parties must, by necessary implication, have intended that innocent party would be discharged from further performance of his obligations in the event that the term was not fully and precisely complied with*". The number iii) and iv) might be defined as *condition by contract* because they are created by private autonomy⁸⁷. The implementation of these, as conditions or warranties, depends on the wording used in the clause.

Implied statutory terms have great importance in case of no contractual agreement, or in case of a verbal agreement or at least in case with a very undetailed agreement between parties. In case of a breach of these contractual terms, the extent of consequences depends on the magnitude of the breach. In case of a breach under a given magnitude the clause gives the innocent party the right of claiming for liquidated damages so in this case it is a warranty. If the breach goes beyond a certain level of magnitude, the innocent party has the right to terminate the contract. In this case the clause is a condition. As we affirmed before, implied statutory terms are relevant in case of no agreed clause. The private autonomy regulates some cases but what does a party do if an agreement on performances, design, technical description is not reached? In this case, it gives parties the possibility to use statutory remedies provided by the Sale of Goods Act. It is important to remind that thanks to the great flexibility of English law, the private autonomy might regulate technical features and remedies in contract as it wishes. At the letter i) and ii) of the Waller test statutory conditions are scheduled by law. These are i) terms describing the ship and ii) satisfactory quality.

They are implied terms of any contract under the Sale of Goods Act. The section 13 gives importance to the good description. In the clause is written "*Where there is a contract for the sale of goods by description, there is an implied that the goods will correspond with the description*". The importance of description and technical details has been already discussed in the previous paragraph. Given the importance of plans

⁸⁷ F.LORENZON R.COLES "*The law of Yacht and yachting*" quoting "*These will typically include terms invariably and improperly referred to as warranties class compliance, speed, performance, noise level, freedom from vibration, range and fuel consumption.*"

and specifications, which are technical descriptions of the vessel, we can't underestimate the importance of Section 13 of Sale of Goods Act. Upon this provision, in case of contractual breach regarding the description of the ship, buyer is entitled to the right to terminate the contract. Perhaps, a buyer intentioned to enforce this section, must consider it carefully. In fact, if he has already acquired the title in the ship, he will become a creditor of the shipyard⁸⁸. Moreover, under Section 15 A of the Act⁸⁹ it might not be possible to terminate the contract when the breach is very little. However, in England the contract prevails over the Act (Section 13). Therefore, if the parties have agreed on an allowance or on a price adjustment, the breach is not subjected to a condition anymore but it is considered and so enforced as a warranty. These statutory provisions have room of application when party hasn't regulated the breach of the contract in it. The second implied condition is the satisfactory quality described in Section 14 of the Act. The act intents the goods meetings "*the standard that a reasonable person would regard as satisfactory, taking account of any description of the goods, the price (if relevant) and all the other relevant circumstances*"⁹⁰ as a satisfactory. The test to identify a satisfactory quality is in the Case *Clegg v. Andersson* Common⁹¹. It is affirmed "*The question is not whether the reasonable person would find the goods acceptable*" because it must be based on a comparison; "*fitness for purpose and satisfactory quality are two quite different concepts. In some cases, such as a high priced quality product, the customer may be entitled to expect that it is free from even minor defects*" so satisfactory quality does not mean that the ship might fit the purpose, it means that the ship must be perfect or nearly so⁹² because the high quality standard and expensive contractual consideration are involved in the agreement to sell. Also in this case the contract prevails over the Act. The Section 15A of the Sale of Goods Act has room of enforcement in this last case as it is applied in regards to Section 13 so that in case of slight breach regarding quality or ship description the breach might be consider a warranty. The shipbuilding contract is under English law an agreement to

⁸⁸ F.LORENZON R.COLES "*The law of yacht and yachting*"

⁸⁹ "15A Modifications of remedies for breach of condition in non-consumer cases. (1) where in the case of a contract of sale- (a) the buyer would, apart from this subsection, have the right to reject goods by reason of a breach on part of the seller of a term implied by section 13,14 or 15 above, but (b) the breach is so slight that it would be unreasonable for him to reject them, then, if the buyer does not deal as consumer, the breach is not to be treated as a breach of condition but may be treated as a breach of warranty

⁹⁰ F.LORENZON R.COLES "*The law of yacht and yachting*"

⁹¹ *Cleeg v. Andersson (T/A Nordic Marine)* [2003] EWCA Civ 320 Lloyd's REp

⁹² *Cleeg v. Andersson Supra,*

sell regulated by the Sale of Goods Act. The ship is considered a future good sold by description. The contract might have three different typical clauses, which are labelled: warranties and conditions. The condition, providing the buyer with the right to terminate the contract, might be contractual or legal. In the first case, they refer to wording used in the contract or to the nature of the contract. In contractual condition the parties might agree on an intermediate terms of warranties in order to give the right to terminate only in case of huge contractual breach. There are three legal conditions⁹³; the party has the right to call for a termination of the contract within a breach regarding the description of the vessel or an unsatisfactory quality. In both statutory cases, the section 15A must be applied so that in case of minor defects there is a right of demanding a reduction of contractual price or to repair the defect instead of be contractually terminated.

In the European legal framework the situation is completely different⁹⁴. In English law a judicial attempt to disqualify the sale of goods nature of shipbuilding contract didn't success so that the shipbuilding contract is still consider a sale of goods contract. In Europe there isn't a unique position on shipbuilding contract nature. In Germany, the construction law regulates the shipbuilding contract⁹⁵. In France, considering a law of 1967 and some sentences⁹⁶ the shipbuilding contract is considering a sale of goods within same typical clauses of construction law⁹⁷. Looking at the European panorama, Italy shares with Germany the same view on the nature of the shipbuilding obligation, however, the Italian nature of shipbuilding obligation is not that clear. Different authors

⁹³ The third is not relevant to shipbuilding contract.

⁹⁴ Lin Wei, Steven Shi, Melody Guo *"Shipbuilding in 20 jurisdictions worldwide"* GDT, 2014, China shipbuilding agreements are considered a contract *sui generis* which is similar to a combination of a sale contract and a workmanship and materials contract see also Shan Aiming *"Analysis of Legal Nature of Shipbuilding Contract"*, Dalian Maritime University, 2008, where the author affirmed that *"In Chine a shipbuilding contract, if without any foreign element, will be characterized as a work contract, but a a sales contract, if the contract with certain foreign element"* for a general overview over the nature of shipbuilding contract in the Chinese People's Republic law see also Li Zhiwen *"The ship condition and its legal nature under the ship construction"*, Journal of Dalian Maritime University, 3/2004, SHAN HONG-JIU YU SHI-HUI *"Non-singleness: the legal nature of the shipbuilding contract"*, Annual of China Maritime Law, 4/2010, ZHANG XIN *"On the basic issues of domestic shipbuilding contract disputes at present time"* in Chinese Journal of Maritime Law, 23/2012; LIU WEI-JUN *"An empirical study on the legal nature of shipbuilding contract"*, Zheng Fa Lun Cong, 3/2015

⁹⁵ In Germany is called *"Werkvertrag"* see M.CHIRCO *"Contratto di costruzione di Nave"* in *Dizionari del Diritto Privato- Diritto della Navigazione* edited by M.DEIANA, Giuffrè, 2010

⁹⁶ See R. ALBANO *Costruzione di nave ed aeromobile"* in *Enciclopedia del diritto*, Giuffrè, 1962, Court of Appel Renne 23 July 1873 and French Court of Cassation 10 marzo 1872 this view it is very linked with the view of the Roman Law. The Shipbuilding contract is a *vente a livrer* under which the ship is consider a future good.

⁹⁷ M.DEIANA *"Diritto della Navigazione"*, Giuffrè, 2010

have addressed the issue since the beginning of the century⁹⁸. The solution of the question is apparently in the Section 241 of the Navigation Code (Codice della Navigazione) where there is a statutory provision linked with the Italian Civil Code (Codice Civile). Section 241 proves the disinterest of the Italian legislative power in regard of the private aspect of the shipbuilding obligation. The second book of the Navigation Code does not provide a specific regulation of the shipbuilding transaction. Sections, in second book of the Navigation Code, define the statutory form of the contract, which must be written or in certain limited cases oral (section 237). The Navigation Code doesn't express any interest in regulating the shipbuilding transaction, which under the Italian law must be regulated by section 1655 of Italian Civil Code (Construction law). Perhaps, the doctrine has been questioned itself on this reconstruction in order to find different solutions. The first step is to understand whether the shipbuilding activity is conducted at the presence of an order or not. In case of absence of order, we can't apply the section 241 of the Navigation Code but we shall apply another legal institute called "*specificazione*" described at section 940 of the Italian Civil Code. In the Italian Civil system, that is a way to acquire a property over chattel and good. It consists of using different materials and workmanship; in the case of shipbuilding we would say steel, yard and workmen, to create a new good, in our case a ship, and to acquire the property over the ship. The section 940 Civil Code describes two situations. The first situation regards a builder using its own materials and workmanships. In this case the builder acquires the property of the ship. However, if the builder didn't use its own material but these are furnished by another party, the last shall acquire the property of the vessel after having paid the builder for the workmanship. In case of an order, we do have a shipbuilding agreement regulating the transaction. In a building transaction the extent of builder's consideration might vary. If the builder has

⁹⁸ R.MANCUSO "*Istituzione di diritto della navigazione*" Giappichelli, A.LEFEBVRE D'OVIDIO G.PESCATORE L.TULLIO "*Manuale di diritto della Navigazione*" Giuffrè, M.CASANOVA M.BRIGNARDELLO "*Diritto dei trasporti- La disciplina contrattuale*" Giuffrè, 2012, M.DEIANA "*Diritto della Navigazione*" in Giuffrè, 2010, A.ANTONINI "*Trattato breve di diritto marittimo*" Giuffrè, 2007; G.RIGHETTI "*Contributo alla teoria dell'appalto per la costruzione di nave*" in Riv.dir.nav. 1966, L.TULLIO "*La natura giuridica dell'Hovercraft*" in Riv.Dir.Nav. 1970, F.BERLINGERI comment to Lodo Arbitrale 9-VI-1998 *F.lli Neri ed altri c. Nuovi Cantieri Apuani* in Il Diritto Marittimo, 2000, F.DOMINEDO' "*Natura giuridica della nave*" in Riv. Dir. Nav. 1958, M.CASANOVA "*Note sulla natura giuridica della nave*" in Riv. Dir. Nav. 1940, SPASIANO "*Sul concetto giuridico di nave*" in Riv. Dir. Nav. 1935, F.BERLINGERI comment to Lodo arbitrale 31 agosto 1960 in Dir.Mar., 1960, E.SPASIANO "*Modi di acquisto della proprietà navale*" in Dir. Mar. 1963, L.A.LANZALONE comment to Corte di Cassazione Sez. II 19 aprile 1997 n.3395. D.GAETA "*Nave*" in Enciclopedia del diritto, Giuffrè, G.AURITI "*La Nave in costruzione*" CEDAM, 1965 R.ALBANO "*Studi sulla costruzione della nave e dell'aeromobile*" Giuffrè, 1960

to provide workmanship the case is perfectly regulated by section 1655 of Italian Civil Code. However, it is more likely for a shipbuilder to provide workmanship, materials⁹⁹ and other services related to the transaction than just workmanship. If the builder has more duties and its obligation is more complex than providing workmanship, there might be the opportunity to identify the case as an agreement to sell. The difference has huge consequences on guarantee, risks, termination and rescission. The Italian Corte di Cassazione has affirmed that in case of a shipbuilding agreement in which the builder has other duties, beyond the one regarding the workmanship supply, the shipbuilding agreement must be defined as a sale of good on the basis of private autonomy¹⁰⁰. Indeed, we have to deeply understand the purpose of the contract. If the contract purpose is limited to the workmanship, the agreement must be defined as a construction contract. However, if the contract purpose goes beyond the workmanship supply, the agreement is qualified as a sale of goods¹⁰¹. The main doctrine agrees with the decision of Italian Cassation Court affirming that on the basis of private autonomy is possible to qualify the contract as an agreement to sell or a construction contract. Whereas, some authors affirms that is not possible to qualify shipbuilding contract in a different way than a construction law under the Italian law¹⁰². In their view, a contract within duties beyond the mere workmanship and materials is other than a shipbuilding contract. These lead to the conclusion that, the European jurisdictions haven't a shared legal qualification of shipbuilding construction. In some jurisdiction the shipbuilding contract is considered as an agreement to sell, in some others it is considered a construction contract similar to the other non-maritime construction contract- In Italy, the first biggest difference is made by the presence of a business order. Only with a business order there is a shipbuilding contract. The Italian Navigation Code disciplines the shipbuilding contract referring to the Italian Civil Code section 1655. The Italian Cassation Court and the major doctrine have affirmed that a shipbuilding contract, on the basis of the private autonomy, might be qualified a sale of goods. This would lead to a certain level of similarities with the English set up. Perhaps, some authors state that if

⁹⁹ M.DEINA "*Diritto della navigazione*" Giuffrè, 2010

¹⁰⁰ Cass. 20 January 1977 n.290 in Foro it., 1977; Cass. 19 April 1997 n.3395 in Dir. Maritt. 1999, Cass. 7 February 1996 n.984 in Dir. Mar. 1998

¹⁰¹ M.DEIANA "*Diritto della Navigazione*" for the author the last situation is not a shipbuilding activity anymore but he doesn't agree with that part of the scientific community affirming that a shipbuilding contract might have different purposes than the construction. The same conclusion is reached in Lodo Arbitrale 6 April 1959 quoted in C.Carbone "*Il diritto marittimo attraverso I casi e le clausole contrattuali*"

¹⁰² M. DEINA "*Diritto della Navigazione*"

the contract contains other sale-related duties the contract might not be classified anymore as a shipbuilding contract.

1.5 CONCLUSION

At the end of this brief introduction of a general legal shipbuilding framework, we will write some conclusions down. As we have seen, there are many differences among jurisdictions. However, business community has coped with them developing a uniform approach among business transaction. Uniformity is the base for getting the international trade bigger and more prosperous. Because of the differences above highlighted, the business at hand has no uniformity. Domestic law governs shipbuilding contracts¹⁰³ and every domestic law has its own set-up. Struggling with a complex transaction has lead the shipbuilding business community to development of some templates providing “*to builders and buyers with an alternative, balanced and comprehensive shipbuilding contract [...] so that the parties can easily identify their rights and obligations and reduce the risk of disputed in matters if interpretation of contractual terms*”¹⁰⁴. The templates do not pursue other aims than both providing parties within “*equally apportioned [liabilities]*” and “*fill the gaps in certain areas where there had been a lacuna or ambiguity in the terms of the old terms of contract*”. The template neither provides nor describes any kind of customary law or other sort of regulation. Domestic law is the unique source of law under which every clauses of any template is regulated. Therefore, considering the shipbuilding activity as one regulated by the customary law or new *Lex Mercatoria* is hard to believe. *Lex Mercatoria*¹⁰⁵ is the law of a business community that in a certain extent has been recognized by the Italian Cassation Court¹⁰⁶ as an independent legal order. Template is neither a source of *Lex*

¹⁰³ F. LORENZON R.COLES “*Yacht and Yachting law*” Informa,

¹⁰⁴ D.J.ATTARD “*The IMLI Manual international maritime llaw- Shipping law*”

¹⁰⁵ F.GALGANO “*La globalizzazione nello specchio del diritto*” ilMulino, 2005; F.GALGANO “*Lex Marcatioria*” in Enciclopedia del Diritto, Giuffrè, 2001 F.GALGANO “*The New Lex Mercatoria*” in Annual Survey of international & comparative law L.99/1995

¹⁰⁶ Judgment of February 8, 1992 Cass. N. 722 “*A law within which arbitration works independently of the laws of various states should be considered a transnational law. This is the case of the mercantile law that exists through the adhesion of the business community to the values of its environment, through its conforming to those values induced by the opinion necessitates that it has with regard to these values, i.e. the prevailing conviction that they are binding. Since the business community-independently of citizenship and/or place of business- agrees upon some basic values regarding its business and agrees upon the aforementioned opinion necessitatis (even for simply practical reasons) we should admit that a lex mercatoria exists (and we identify it with a set of rules whose content changes but has pro tempore a fixed content) in this way the mercantile law comes about when the common conviction*

Mercatoria nor it is regulated by it. There is no *opinion iuris* supporting the regulation contained in the template so that there is no source of customary law but there is just a useful tool. Even more, the contract is not regulated by *Lex Mercatoria* or legal costumes because every aspect of the contract is governed by a domestic law chosen by the parties. Moreover, the parties pay a great attention to this choice because of its relevant consequences for the general scheme of responsibilities, duties and, perhaps the most important, statutory or implied terms to be applied at the contract¹⁰⁷. The shipbuilding standards or templates are balanced, compressive and clear. These are used without any *opinion iuris* by the parties, which are or should be more focused on governing law than other than any other legal issue.

The absence of an international trade convention or unified law has been qualified as the root of the *non-uniformity* characterizing the international shipbuilding. Ship is a chattel and shipbuilding contract might be considered as an agreement to sale in almost every jurisdiction. In Italy the Cassation Court affirmed that it is possible on the basis of private autonomy¹⁰⁸. Having regard to this framework, shipbuilding contract must be regulated at European and international level by the conflicts of law regulations. There is no need to use international public instruments such as treaties or conventions. The shipbuilding contract and related obligation might be perfectly regulated by conflicts law, so using private international law. Whether the party didn't decide the governing law, due to the economic values, duties, and responsibilities at stake such situation seems to be really unrealistic. Indeed, the case must be regulated by conflicts of law.

of the existence of common binding values takes shape and when people having such a common conviction co-ordinate their behavior in the basis of common rules (in this way forming a mercantile societies). In such a societies- which does not have a stable organization- the law is informally applied; even when it is applied by an organization, such as arbitration organs, the mercantile law, while it becomes more consistent, does not change its nature. The rules governing "mercantile" arbitration (impromptu or pre-organized" is a part of "mercantile" law (that is, independent of the law of the State). We out by the organizations of the mercantile society, and particularity the arbitration organs, have effect not only within the field of lex mercatoria, but also in the state in which they operate. This acknowledgement by states is made necessary because the lack of coercive power of its organs oblige recourse to the coercive power of states to make the works of these organs effective, both in the mercantile environment and, in general, within the state." Translation provided by F.GALGANO "The New Lex Mercatoria"

¹⁰⁷ F.LORENZON R.COLES "Yacht and Yachting law"

¹⁰⁸ See note n. 105

CHAPTER II
THE STRUCTURE AND LEGAL QUALIFICATION OF SHIPBUILDING CONTRACTS.

2.1 INTRODUCTION: THE QUALIFICATION. 2.2 THE ENGLISH LEGAL NATURE OF SHIPBUILDING CONTRACT: CASE LAW APPROACH AND DEVELOPMENT. 2.3 ITALIAN SENTENCES ON SHIPBUILDING AGREEMENT: BETWEEN A CONTRACT AGREEMENT AND A SALE OF GOOD AGREEMENT. 2.4. A COMPARATIVE VIEW OF ITALIAN AND ENGLISH SHIPBUILDING AGREEMENT: CONCLUSION.

2.1. INTRODUCTION: THE QUALIFICATION.

At the international level there is no treaty or convention regulating shipbuilding transactions¹⁰⁹. While the international elements of this market have been increasing as never before, the international community gave up on creating a uniform regulation of this market. The main problem, between the actual fragmented regulation and a unified one, is the legal nature of the contract. It has been noted that the nature of the transaction is different among States. In Europe the division is between the classification of a shipbuilding contract as a sale of goods, for which English law is a representative, and its classification as a construction contract, for which Italy might be a representative. It is out of the scope of this research discussing the consequences of this different classification for the contractual party, however it is not worthless to clarify its legal nature. This act of qualification might be useful for identifying the best way to protect the intellectual property related to shipbuilding contract.

First of all, we must focus our attention on the fact that in this market both common law court and civil law court give private autonomy a great importance and a great operational space¹¹⁰. After having compared the Italian and English legal nature of shipbuilding contract, we will focus our attention on design, draws and plans because the obligation to prepare them has been a basis for many cases over shipbuilding legal nature. The obligation related to design has a great importance in the intellectual property protection because it is one of the few IP titles with a unified regulation. In the

¹⁰⁹ The treaty on international sell of goods is not applicable to shipbuilding contract. It looks like as if the treaty is not used to regulate the transaction at the stake because its debatable nature.

¹¹⁰ We do dig deeper and better this subject, perhaps we must quote now sentences release by Italian Corte di Cassazione of 21 November 1979 n. 6067 Pozzoli C. Caviglia and Corte di Cassazione Sez. I 07 February 1996 n. 984 Defence Ministry C. Fall. Soc. Tecnaval and Corte di Cassazione 19 April 1997 n. 3395 Steconi C. Ditta Mannini Costruzioni di Marco Mannini and V.M. Motori S.p.A. and Simar S.r.l., the Corte di Cassazione has given to the private autonomy a great importance for the qualification of the contract as a sale of good agreement or a construction one.

way, we might proceed on a path, which has never been covered before. We might find the best way to protect an important aspect of shipbuilding obligation on which the shipbuilder often retains the property¹¹¹.

2.2 THE ENGLISH LEGAL NATURE OF SHIPBUILDING CONTRACT: CASE LAW APPROACH AND DEVELOPMENT.

It is well established in the shipbuilding market that contract, in particular important commission, is settled on sample form of template. The reason of this choice is the need to regulate and to share fairly among the parties any risks related to the construction activity. At the very basis of this choice there is the complexity of the transaction. Standard forms aim to create a framework in which a complex transaction is easier to negotiate and to organize¹¹². The direction of a shipbuilding contract is to regulate the supply of workmanship and materials and the final product of this supply is ship, which under the English law, is a good¹¹³. This has led English Courts a contract for the sale of future goods, rather than for the provision of materials and services¹¹⁴. Historically, English court has given more importance to the passage of property over a chattel than the supply of workmanship and material. We see later in this chapter that the Italian legislator has made different decision. The consequences of this English choice are that the significant body of English non-marine construction law principles applicable to the latter have not typically been applied in reported shipbuilding cases¹¹⁵. This statement must be used with care for two reasons. The first, historically the sale of goods nature of a shipbuilding contract has been questioned various times. The second, a recent sentence delivered by Lord Hamblen at the High Court of Justice. The case is *Adyard Abu Dhabi v. SD Marine Services*¹¹⁶.

In 1861, a sentence was delivered and it was held that “*if the contract be such that, when carried out, it would result in the sale of a chattel, the party cannot sue for work*”

¹¹¹ S.Curtis “*The law of Shipbuilding*”

¹¹² See, among others, F.LORENZON

¹¹³ F. LORENZON, see also *Dalmare S.p.A. v. Union Maritime Ltd, Valor Shipping Ltd* [2012] EWHC 3537 (Comm)

¹¹⁴ S.CURTIS L.ELMES “*Construction Law Principles and Shipbuilding contracts*”, Lloyd’s List, 11 May and 18 May 2011.

¹¹⁵ S.CURTIS L.ELMES “*Construction law principles*”

¹¹⁶ [2011] EWHC 848 (Comm)

and labour, but if the result of the contract is that the party has done work and labour which ends in nothing that can become the subject of a sale, the party cannot sue for goods sold and delivered". The judge affirmed that the contract was itself written and structured, as a sale of good agreement and the party hasn't got any right to sue in relation to workmanship and materials¹¹⁷. Until relatively recent time, it has been quite easy for English Courts to categorize shipbuilding contracts as one of sale of goods. In *Macbeth & Gray v. Reid (Carmichael, Maclean, & Company's Trustee)*¹¹⁸, a case of bankruptcy of the shipbuilder, there was a contract containing a clause declaring that the vessel, as it was constructed and all materials from time to time intended for it or them become property of the purchaser and shall not be within the disposition of the builders. Another clause declared that in the event of builder's default, the purchaser should be entitled to take possession of the vessels and materials. The problem has arisen when the builders went bankrupt. At that time, there were plenty of iron platens stationing at the rail station. The case was called by a competition between the trustee in the shipbuilder's bankruptcy and the purchaser. They were each claiming the property of iron. The First Division of the Court of Session has decided that the contract was for a sale of a ship and not for the sale of the materials so that the property of iron had not passed to the purchaser. We do not have an interest on this decision itself but we use this sentence as another point in order to build up the English historic approach to the legal nature of shipbuilding contract. The statement of Lord Davey, at page 373, is the most interesting in the sentence for our research, he has affirmed "*There was no contract for a purchase of these materials [...] they have proceeded on the supposition of hypothesis that this contract contained not only a contract for the purchase of the ship but a separate contract for the purchase of the materials also; and that seems to me to be a complete fallacy. There is only one contract- a contract for the purchase of the ship. There is no contract for the sale or purchase of these materials*".

This view about the nature of shipbuilding contract has been followed and confirmed by justices since the obligation covered by the agreement remained simple. The first who started to analyse the nature of that type of agreement was Mr. Justice Diplock. In the *McDougall v. Aeromarine of Emsworth*¹¹⁹, Ltd he has highlighted the fact that shipbuilding agreement is legally a contract for sale of goods rather than a construction

¹¹⁷ *Lee v. Griffin* [1861] B&S 272

¹¹⁸ [1904] H.L. 41 SLR 369

¹¹⁹ [1958] 2 Lloyd's Rep. 345,

agreement. Mr. Justice Diplock has been asked to give a sentence on a case concerning the issue whether the buyer could reject the ship when she was tendered for delivery on the ground of unmerchantable quality. The question whether the ship had become the property of the buyer after payment of an instalment was relevant to the issue of rejection. As the buyer had not yet become the owner of the ship, his rejection was not affected¹²⁰. In the case, first of all, Mr. Justice analysed the contract¹²¹ as a main source of the agreement between the parties. The object was to construct a Tiger V Cruiser/racer for delivery on May 1, 1957. In Clause 1 in the contract was affirmed “*the builders will lay down, construct, launch and fit out the craft to be identified by the builder’s reference number in accordance with the detailed specification and drawings annexed hereto each separate sheet bearing the signature of both parties to this agreement*”. The defendant was compelled not only to construct the vessels but also to do all the activities briefly described in Clause 1. Lord Diplock, resolving this case, has reaffirmed the jurisprudence settled by Lord Halsbury in *Macbeth & Gray v. Reid*. He has written, “*I say a contract for the sale of goods because it seems well settled by authority that, although a shipbuilding contract is, in form, a contract for the construction of the vessel, it is in law a contract for the sale of goods*”¹²².

After the list of cases stating that the shipbuilding contract is a contract for sale of goods, we might not realize that it is difficult to determine into which category a particular contract should fall¹²³. Mr. Diplock has been the first to point out a doubt over the categorization of the contract at the stake. The fact is that shipbuilding contract is very similar to non-marine construction. These similarities are based on the content of most shipbuilding contracts, which are most of the time directed to regulate a substantial and complex construction project in which party assumes a long-term obligations to the other and bears significant commercial risk¹²⁴. These features have been recognised by two decisions of the House Lords. The first case I refer to is *Hyundai Heavy Industries co. v. Papadopoulos and Others*¹²⁵. The issues to be decided were whether unpaid instalments of the contract price which had accrued due to the builder prior to his termination of the contract remained payable by the buyer after such

¹²⁰ A.Mandaraka-Sheppard “*Modern maritime law: volume 2*”, New York, 2013

¹²¹ The Ship and Boat Builders National Federation standard form has been used by Aeromarine of Emsworth.

¹²²[1958] Lloyd’s Rep. Vol. 2 pag. 355

¹²³ S. Curtis “*The law of Shipbuilding*”

¹²⁴S. Curtis “*The law of Shipbuilding*”

¹²⁵ [1980] Lloyd’s Law Reports Vol. 2 pag. 1

termination had taken effect. The House of Lord considered the instalments payable because the builder had given the consideration to the buyer in the form of the work it had undertaken in partially constructing the vessel. The Clause 2 of the contract stated that the contract price “*shall include payment for services in the inspections, test, survey and classification of the vessel [- and also-] all costs and expenses for designing and supplying all necessary drawings for the vessel in accordance with the specifications*”¹²⁶. The statement in this clause has allowed the House of Lords not to follow an authority on the same issue. The House has distinguished this contract on the ground because of the fact that the shipbuilding contract requires the builder to perform work and incur in expense. So, unlike a normal shipbuilding contractual structure a sale of goods contracts “*did not require the vendor to perform any work or incur any expense in the subjects of sale*”¹²⁷. The distinction made by Lord. Fraser has followed the statement of Mr. Justice Dilhorne. Lord Dilhorne has distinguished the case because he has believed that “*in this case the contract was not just for the sale of a ship. As I have said, it was a contract to build, launch, equip and complete a vessel and to deliver and sell her*” even more he affirmed “*the contract price included all cots and expenses for designing and supplying all necessary drawings for the vessel*” and then, the most importance sentences questioning the nature of the shipbuilding contract, “*It was a contract which was not simply one of sale but which so far as the construction of the vessel was concerned, resembled a building contract*”¹²⁸. The conclusion reached in the Hyundai case was to distinguish a sale of goods contract and shipbuilding one on the ground of the different obligations, work, expense and risk taken by the builder rather than the vendor.

The *Stoczina Gdanska S.A. v. Latvian Shipping and others* ¹²⁹ has reaffirmed the principle stated in *Hyundai* case. This case has come out from a proceeding related to six shipbuilding contracts. Under each of the contracts, the yard (Stoczina Gdanska S.A.) had undertaken to “*design, build, complete and deliver*”¹³⁰ the vessel. The course is following. In 1992 the shipbuilder started vessel number 1 and 2. The design, ordering and construction were carried out during 1992 and 1993 for all six contracts. In 1993 the buyers had problems in obtaining finance for the ships. Because of these

¹²⁶ [1989] Lloyd’s Law Reports Vol. 2 pag. 13

¹²⁷ *Per* Mr. Justice Fraser pag. 13

¹²⁸ *Per* Mr. Justice Dilhorne pag. 5

¹²⁹ [1998] 1 WLR 574

¹³⁰ See Clause 2.01 of each contracts, by clause 12.01 the contracy was governed by English law.

financial problems, buyer didn't pay the instalments on time. Thus, the builder has commenced two actions against the buyers, they both aimed to obtain the payment of the instalments. We have interest in the section "*total failure of the consideration*" in the sentence, because in that part Justice Lord Goff of Chieveley affirmed an important point over the nature of shipbuilding agreement. The buyer, represented by Mr. Glennie, has affirmed that in such case there was a total failure of consideration because the buyers would have received nothing under the contract, no property in the vessel or any part of it having been transferred to them¹³¹. So, he posed a question to Court in which he asked whether the buyer had received a benefit from any obligations pursued by the yard. His answer was no on the ground that "*any time or money spent by the yard in building the keels ensured solely for the benefit of the yard, in whom the property remained*"¹³²". The motivation to this answer was the difference between ordinary building contracts "*where the building as it is erected belongs to the builder owner as the owner of the land on which it is being built*"¹³³". Mr Cordara, builder's representative, has challenged this thesis. He has affirmed that under the contract in question the builder was not merely bound to transfer the property in the vessel to the buyers. It was bound to "*design, bud, complete and deliver the vessels*"¹³⁴. In Mr. Cordara's view the contract were not therefore a contract of sale *sic et simpliciter*, it was a contract for work, materials thought it has included an obligation to transfer the property once the product was finished¹³⁵. Mr Cordara has affirmed that the contractual performance started with the "*translation of the agreed specification into a design which complied with its requirements, the next stage in the performance being the translation of the design into a completed vessel [...] Only at a late moment would the title in the completed vessels pass to the buyers*"¹³⁶". Lord Justice Goff of Chieveley has found himself in agreement with Mr Cordara's submission. In order, to resolve the case on the instalments he affirmed that the right test to apply regards the performance carried out by the promisor as a part of the contractual duty. It is not important whether the promise has received a benefit for the contract or not. Before proceeding with an analysis of the contract he had affirmed that was necessary to answer a question: "*is the contract in question simply a contract for the sale of a ship? Or is it rather a contract*

¹³¹ *Per* Mr. Glennie pag. 10

¹³² *Per* Mr. Glennie pag. 10

¹³³ *Per* Mr. Glennie pag. 10

¹³⁴ Clause 2.01

¹³⁵ *Per* Mr. Cordara pag. 11

¹³⁶ *Per* Mr. Cordara pag. 11

*under which the design and construction of the vessel formed part of the yard's contractual duties, as well as the duty to transfer the finished object to the buyers?"*¹³⁷. If we affirm that the design was not a part of the contractual duties because the contract is one for a sale of goods, so the price is to be paid to the passage of the property, we must accept the Mr. Glennie's view and we finish to consider Stoczina S.A. as having no right on a part of payments. However, considering the design as one part of contractual duties there are two consequences. The first, Stoczina must retain all the received payment for the design activity. The second, the shipbuilding contract contains more contractual duties than the simple conveyance of property. In Lord Justice's opinion the design formed a part of the consideration of shipbuilding contract and so there were no total failure in the consideration. The Lord Justice had affirmed that even if a long-standing opinion has affirmed the sale of goods nature of shipbuilding contract he can't agree with that opinion anymore¹³⁸. In doing so he quoted Justice Fraser of Tullybelton of the *Hyundai Heavy Industries Co. Ltd* affirming that "*it is clear that the shipbuilding contract has little similarity with a contract of sale and much more similarity [...] with contracts in which the party entitled to be paid had either performed work or provided services for which payment is due by the date of cancellation. In contracts of the latter class, which of course includes building and construction contracts, accrued rights to payment are not destroyed by cancellation of the contract*"¹³⁹. The two sentences proposed above have established the position of English courts on shipbuilding contract that are considered as "*a contract to build a ship, though a contract of sale of goods, has also some characteristic of a building contract*"¹⁴⁰.

The approach proposed by the Courts is well accepted by English lawyers and researchers. Under this categorization the impact of sale of goods act on shipbuilding contract is mitigating, in particular the position of the builder doesn't correspond to the vendor under the sale of goods act. However, this mitigation doesn't alter the fundamental nature of the contract itself¹⁴¹. In English textbooks, it has been affirmed that shipbuilding agreement has a hybrid nature. They are sale of goods contracts because the main contractual duty is the conveyance of property, however the

¹³⁷ *Per* Lord. Justice pag. 11

¹³⁸We refer to the case previous to the Hyundai case.

¹³⁹*Hyundai Heavy Industries Co. Ltd. V. Papadopoulos* [1980] 1 W.L.R. 1129 pag. 1148- 1149

¹⁴⁰ S. Curtis "*The law of Shipbuilding*", Benjamin "*Sale of Goods*" 8th edition, this aspect has been taken in consideration by some form in which the design duty is specified.

¹⁴¹ S. Curtis "*The sale of shipbuilding contract*"

contractual consideration is paid also for other activities for which the buyer takes responsibilities.

The fact that the builder has more contractual duties than a mere transfer of property over a good does not disqualify the contract as a one for the sale of goods¹⁴². Although an important decision in 2011 of the High Court showed a judicial willingness to apply non-marine construction law to shipbuilding contract. I do refer to the case *Adyard Abu Dhabi v. SD Marine Services*¹⁴³ before the honourable Mr. Justice Hamblen. The fact was that the purchaser of two new buildings under English law shipbuilding contracts¹⁴⁴ had rescinded the contract pursuant to their express terms for alleged delay in achieving the vessels' readiness for sea trials¹⁴⁵. The shipbuilder built all is defence on the so-called prevention principle¹⁴⁶ a well-established non-marine construction law principle. Therefore, he didn't deny that the vessels were incomplete at the time of the cancellation, but affirmed that the purchaser was not entitled to rescind on the grounds that its act had prevented completion of the vessels. In the *Adyard Abu Dhabi v. SD Marine Services*, Mr. Justice Hamblen affirmed that in a basic shipbuilding contract the principles shows that “(i) *In a basic shipbuilding contract, which simply provides for a*

¹⁴² F. Lorenzon A.C. Velasco “*Shipbuilding, sale finance and registration*” in *Maritime Law*, New York, 2014

¹⁴³ [2011] EWHC 848 (Comm)

¹⁴⁴ S. Curtis L. Elmes “*Construction law principles and shipbuilding contract*” *Lloyd's List* “*Shipbuilding contract have historically been categorised under English law as contracts for the sale of goods, rather than for the provision of materials and services, with the consequences that significant body of English non-marine construction law principles applicable to the latter has not typically been applied in reported shipbuilding cases.*”

¹⁴⁵ S. Curtis L. Elmes “*Construction law principles and shipbuilding contract*”

¹⁴⁶ *Trollope & Colls Ltd v. North West Metropolitan Regional Hospital Board* [1973], *Multiplex v. Honeywell* [2007] Bus LR Digest D109, Mr. Justice Jackson gave a convenient summary of the principle “47 [...] *The essence of the prevention principle is that the promisee cannot insist upon the performance of an obligation which he has prevented the promisor from performing.* 48. *In the field of construction law, one consequences of the prevention principle is that the employer cannot hold the contractor to a specified completion date, if the employer has by act or omission prevented the contractor from completing by that date. Instead, time becomes at large and the obligation to complete by the specified date is replaced by an implied obligation to complete within a reasonable time. The same principle applies as between main contractor and sub-contractor.* 49. *It is in order to avoid the operation of the prevention principle that many construction contracts and sub-contracts include provisions for extension of time. Thus, it can ben seen that extension of time clauses exist for the protection of both parties to a construction or sub-contract.*” than he has derived three main authorities on this principles “(i) *action by the employer which are perfectly legitimate under a construction contract may still be characterised as prevention, if those actions cause delay beyond the contractual completion date.* (ii) *Acts of prevention by an employer do not set tie at large, if the contract provides for extension of time in respect of those events,* (iii) *in so far as the extension of time clause is ambiguous, it should be construed in favour of the contractor.* 57. *The third preposition must be treated with care. It seems to me that, in so far as an extension of time clause is ambiguous, the court should lean in favour of a construction which permits the contractor to recover appropriate extensions of time in respect of events causing delay [where two construction of an instrument are equally plausible, upon one of which the instruments is valid, and upon the other of which it is invalid, the court should lean towards that construction which validates the instruments].*

builder to complete the construction of a vessel and to reach certain milestones within specific periods of time, the builder is entitled to the whole of that period of time to complete the contract work. (ii) In the event that the buyer interferes with the work so as to delay its completion in accordance with the agreed timetable, this amounts to an act of prevention and the builder is no longer bound by the strict requirements of the contract as to time. (iii) The instruction of variations to the work can amount to an act of prevention.”¹⁴⁷ On the basis of the act of prevention, the employer will not be entitled to claim penalties or liquidated damages for delay in completion, and by inference to exercise right to cancel the contract¹⁴⁸. The judge was worried to upset the reached commercial balance between ship-owners and shipbuilders¹⁴⁹. Even if the application in the case of mainstream construction law principles determines issues of liability for delay in the performance of a shipbuilding contract is to be welcomed¹⁵⁰, the decision in *Ayard* appear rather harsh from the shipbuilder’s perspective, given that the risk generally of “compulsory” modification affecting the vessels’ construction were plainly agreed to be borne by the purchaser¹⁵¹.

The willingness shown by the English court and the welcoming given by English authors to the application to shipbuilding contract of non-maritime construction principles have not changed the position defined by Lord Justice Dilhorne in *Hyundai* case. In a recent case *Dalmare S.p.A. v. Union Maritime limited and Valor shipping limited*¹⁵² about the relationship between sample contract and Sale of Goods Act, Mr Justice Flaux has reaffirmed that ships are good, so that we have to apply to them the Sale of Goods Act, and its implied terms, rather than law regarding workmanship and materials¹⁵³. We must intend the shipbuilding contract as a hybrid sale of goods contract or a sale of goods contract mitigated by non-maritime construction law principles. It is in this way that English courts and arbitration tribunals have customarily looked for

¹⁴⁷ [2011] EWCH 848 (Comm) ¶ 242

¹⁴⁸ S. Curtis L. Elmes “Construction law principles and shipbuilding contract”.

¹⁴⁹ He has referred to *Balfour Beatty Ltd v. Chestermount Propoerties Limited* [1993] 62 Building Law Reports in which the prevention principle might, in extreme circumstances, mean that existence of a “trivial variation” would cause the employer (or purchaser) to forfeit a significant entitlements to liquidated damages for delay. The main legal issue has arose are two: (i) whether the shipbuilder was entitled in law to rely upon the prevention principle to excuse its delay in completion of the vessels and (ii) whether it could establish a casual link between any act of prevention by the purchaser and the delay in completion which had occurred.

¹⁵⁰ S. Curtis L. Elmes “Construction law principles and shipbuidling contract”

¹⁵¹ S. Curtis L.Elmes “Construction law principles and shipbuilding contract”

¹⁵² [2012] EWCH 3537 (Comm)

¹⁵³ Shipbuilders are excluded from Admiralty jurisdiction.

guidance in determining shipbuilding contract disputes¹⁵⁴. It may, indeed, be difficult in practice to determine into which of these two categories a particular contract should fall.¹⁵⁵ In addition, it is plain that neither of the two categories in question defines the nature and scope of the transaction¹⁵⁶. Because of that we might think about it as a hybrid contract: a sale of goods contract influenced by some non-marine construction legal principle.

2.3 ITALIAN SENTENCES ON SHIPBUILDING AGREEMENT: BETWEEN A CONTRACT AGREEMENT AND A SALE OF GOOD AGREEMENT.

The Italian legal system has scheduled vessel as a chattel as the English legal system in which, for this reason, the Sale of goods act is applied to shipbuilding agreement¹⁵⁷. In Italy, the agreement at the stake has been studied and regarded only as a way to acquire the property right on the vessel. Instead of creating a specific legal framework, the Italian legislative power has extended to the shipbuilding deal the set of law governing the law of contract¹⁵⁸. The lack of interest regarding the private aspect of shipbuilding agreement has been the reason for this legislative decision¹⁵⁹. Due to its fragmentation, division and limitation, the Italian shipbuilding legal framework has caused a series of difficulties to market agents. The first reason, of this evaluation, is the absence of any links to the real and modern ship market that for many reasons is so different from the Italian legal framework.

In 1989 an Italian author¹⁶⁰ noted (claimed/stated/mentioned) that the aeronautic market and naval market were already really different. At that time, it was already impossible to consider the construction of an airplane deal as a contract agreement instead of a sale of good agreement. The qualification was based on the fact that airplanes were constructed in series. On the contrary, at that time, the ships were built for an owner

¹⁵⁴ S. Curtis *"The law of Shipbuilding"*

¹⁵⁵ S. Curtis *"The law of Shipbuilding"*

¹⁵⁶ S. Curtis *"The law of Shipbuilding"*

¹⁵⁷ E.SPASIANO *"Modi di acquisto della proprietà della nave"* in Dir. Mar. III/1963,

¹⁵⁸ M. Grigoli *"In tema di interpretazione della volontà negoziale nel contratto di costruzione di nave"* in Giust. Civ. 6/1996

¹⁵⁹ M. Grigoli *"In tema di interpretazione della volontà negoziale nel contratto di costruzione di nave"* in Giust. Civ. 6/1996

¹⁶⁰ C. Medina *"Costruzione della nave e dell'aeromobile"* in Digesto, 1989

after a contract agreement or an order¹⁶¹. The current business organization is represented by a construction on series. As I have said in another part of this research, the market has been changing since the rise of globalization. Today, the builder and purchaser agree to buy a structural project and to replicate it for more than one vessel. In today business, in the agreement is settled an option clause, which regulates the production of a series of certain type of vessel for the purchaser. The reason is the organization of the workmanships and materials at the yards. The builders have been forced to engage this business method with the owner in order to protect the know-how and workers. In addition, in this way they have preserved the business from any market fluctuation¹⁶². The Italian legislative power has not taken inspiration from this new business method.¹⁶³ However, the Italian legal settlement is featured by an interesting *pro-private* autonomy view. The parties are allowed to structure the transaction as a contract agreement or as a sale of good agreement¹⁶⁴.

The Italian doctrine has been divided between those considering the shipbuilding agreement a contract agreement and those considering it a sale of goods one. The issue is sensible because the statutory regulation of these two legal deals is completely different. The distinction, between these two activities, has been based on the aim of the transaction. The sale aims to transfer the property of an object from the vendor to the purchaser. The contract agreement aims to bind the contractor to do something. In theory, the distinction is quite simple but in practice, the issue has been discussed among lawyers since the Roman law¹⁶⁵. There are problems of distinction when the agreement contains both a 'to do' and 'to give' obligation, and when the workmanship is furnished by the contractor¹⁶⁶. The doctrine and the case law have well stated that the distinctive criteria between a contract agreement and a sale of good agreement is the predominance of a 'to give' obligation or a 'to do' obligation. The author has affirmed that the distinction is based on the private autonomy. The qualification of the deal is

¹⁶¹ C. Medina "*Costruzione della nave e dell'aeromobile*"

¹⁶² M. Grigoli "*Ancora in merito all'acquisto della nave in costruzione*" in Giust. Civ. 3/1999

¹⁶³ M. Grigoli "*Ancora in merito all'acquisto della nave in costruzione*"

¹⁶⁴ Cassazione Civile 07/02/1996 n. 984 Ministero della Difesa c. Fall. Tecnaval S.r.L. the justices were asked about a question of property. However in order to answer that legal question, they affirmed that in the Italian legal system has no act for establishing the nature of the property on the vessel. In this context, they said, the private autonomy is supreme.

¹⁶⁵ See the comment of L.L.LANZALONE to Corte di Cassazione Sez. II 19/04/1997 n. 3395 Riccardo Steconi c. Ditta Mannini Costruzioni di Marco Mannini e V.M. Motori S.p.A. e SIMARS S.R.L., the issue was the principle point of distinction between Proculeiani and Sabiniani.

¹⁶⁶ *Koriller c. C.E.A.M.* App. Milano 01/07/1958 in *Mass. App. Milano, 1958, 876*, the second point is common in the Italian legal system however for that justice it is irrelevant.

transferred to private autonomy because the qualification depends on the structure of the deal created by the private autonomy. The *nomen juris* is irrelevant for the qualification of the agreement. In respect of the principle that legal effects are caused by *vi legis*, the private autonomy has the power to shape the negotiation as a contract agreement or a sale of good one¹⁶⁷. Once we have the correct qualification corresponding to the parties' willingness, we might apply to the deal the statutory regulation¹⁶⁸.

The interpretation of each agreement must not be done without taking into consideration every clause of the agreement. Only in this way, we might understand the willingness of the party to consider the deal as a contract agreement or not. This principle, accepted by the doctrine, has been stated in Court in *Pozzoli v. Caviglia*¹⁶⁹. The Italian Corte di Cassazione decided that when we are at the presence of both 'to do' and 'to give' obligation we must verify which obligation is predominant. However, in order to understand what is the main obligation in the agreement the predominance must be found in accordance with private autonomy. This decision has been reaffirmed in *Ministero della difesa v. Fall. Tecnaval S.r.l.*¹⁷⁰. The Court excluded the existence of a defined and exclusive method to acquire the property over a vessel¹⁷¹. The reason for this kind of solution has been explained in *Ministero dei Lavori Pubblici v. Fall. Tecnaval*¹⁷². The Justices affirmed that the act of construction is not legally relevant but it is only a part of the deal between the parties. The deal, containing all obligations, has two aims. The first, is excluding the application of the statutory regulation regarding the contract agreement. The second is to provide legal title to justify the acquisition of property.

2.4. A COMPARATIVE VIEW OF ITALIAN AND ENGLISH SHIPBUILDING AGREEMENT: CONCLUSION.

After this presentation the closeness of the two legal systems is clear. Both systems give private autonomy a large room to structure the deal as a sale agreement or as a construction agreement. The qualification of each contract is made on the basis of

¹⁶⁷ C. MEDINA "Costruzione della nave e dell'aeromobile"

¹⁶⁸ L.L.LANZALONE to Corte di Cassazione Sez. II 19/04/1997 n. 3395 Riccardo Stecconi c. Ditta Mannini Costruzioni di Marco Mannini e V.M. Motori S.p.A. e SIMARS S.R.L. in which the A. has quoted many sentences approving this view,

¹⁶⁹ *Pozzoli v. Caviglia* Cassazione Civile Sez. II 21/11/1979 n. 6067

¹⁷⁰ *Ministero della difesa v. Fall. Tecnaval S.r.l.* Cassazione Civile Sez. I 07/02/1996 n. 984

¹⁷¹ *Ministero della difesa v. Fall. Tecnaval S.r.l.* Cassazione Civile Sez. I 07/02/1996 n. 984 point 2

¹⁷² *Ministero dei lavori Pubblici v. Fall. Tecnaval* Cassazione Civile Sez. II 29/04/1998 n. 4350

parties' intention and on a each case basis. An in-depth analysis of the agreement in the SOGA context is worthy because this is the worldwide act regulating the transaction at stake.

The section 62 (1) provides a definition of good which is wide enough to include ship, vessels and aircraft¹⁷³. The first issue raised by this wide definition is in relation to the Merchant Shipping Act 1995. In this Act, a ship is defined as “*vessel used in navigation*”. The issue regards the transfer of property of registered ship in an American case of 1867, where it was said that “*A ship is not like an ordinary personal chattel; it does not pass by delivery, nor does possession of it prove the title to it. [...] in the case of American ships the laws of the United States provide the means of evidencing the title to them*”¹⁷⁴. The question is thus a right of property over a registered ship if it is transferred within a bill regulated by the Merchant Ship Act or similar national regulations. However, a ship in the course of construction is regulated by the sale of goods act¹⁷⁵ because it is considered as a simple good and it has not acquired any attitude to navigate. This situation is confirmed by a case in which a property on a vessel ceasing to be a registered ship is transferred without a bill of sale¹⁷⁶. The English Courts have gone even further affirming that the Sale of Goods Act must be applied to ship under construction and to registered ship in relations to all other aspect excluded the transfer of property. For the English Courts, apart from the rules governing a transfer of property, even a registered ship or a platform¹⁷⁷ may be subjected to Sale of Goods Act¹⁷⁸. That is the case in *Behnke v. Bede Shipping Company Ltd.* in which the Sale of Goods Act was invoked for a contract to sell a British Ship¹⁷⁹. Any goods subject to a registration provision are governed by analogous rules. These rules govern the sale and ownership of aircraft which are subject for the ownership and sale as a registered good to the Civil Aviation Act 1982 and are subject for the performance of the contract and the sell as a unregistered good to the Sale of Goods Act¹⁸⁰.

¹⁷³ “*Benjamins’ on sale of contract*”

¹⁷⁴ *Hooper v. Gunn* [1867] 2 Ch. App. 282

¹⁷⁵ We have already quoted the *Reid v. Macbeth* [1904], *McDougall v. Aeromarine of Emsworth Ltd* [1958] 1 W.L.R.

¹⁷⁶ *Manchester Ship Canal co. V. Harlock* [1914] 2 Ch. 199

¹⁷⁷ *Davy offshore Ltd. v. Emerald Field Contracting Ltd.* [1992] 2 Lloyd’s Rep. 142

¹⁷⁸ “*Benjamins’ on sale of goods*”

¹⁷⁹ [1972] 1 K.B. 649

¹⁸⁰ *Cadogan Finance Ltd. V. Lavery* [1982] Com. L. R. 248

When the party hasn't settled the issue, the decision is made by the Court¹⁸¹. The qualification made by the Court is based on the substance of the contract¹⁸². Its determination is a matter of degree related either to an arbitrary formula or a superficial impression. We are going to describe some deal in which a logical distinction is possible. The first agreement to be analysed is where a chattel is to be fixed to another chattel. In this case, the employer owns the land or chattels and the job involves the use on it of time and materials belonging to employer. In this case, there is no sale of goods deal. The property passes over the latter chattel pass to the employer by accession¹⁸³. When we have a previous sale of goods and an additional agreement to affix it, we are in front of two different agreements. In this latter situation the property passes before the article is affixed by virtue of the contract of sale¹⁸⁴.

A different situation regards a deal under which an article is to be manufactured and the employer supply all the materials. In this situation, there is no sale of goods. However, the qualification is different when employer and employee provide different materials or components. This case leads to a distinction between principal materials and subsidiary material done by the Court. If the employer supplies the principal materials, the contract must be one for work and labour, but it should be observed that the converse does not hold, even in the case where all the materials are supplied by the worker, the contract is not necessarily a sale¹⁸⁵. In case where services are independent from the creation or furnishing of product, the contract is for work and materials. However, if the price for the supplied goods includes some incidental services is true to construe the contract as a sale of goods one. This is a quite concrete situation characterizing the actual development of the shipbuilding sector where builders provide pre and post delivery services to builder in order to acquire a larger room in the market. The possibility to

¹⁸¹ Benjamins' on sale of contract

¹⁸² *Robinson v. Graves* [1935] 1 K.B. 579

¹⁸³ *Tripp v. Armitage* [1839] 4 M. & W. 687 *Clark v. Bulmer* [1843] 11 M. & W. 243

¹⁸⁴ Benjamins' on sale of contract, the A. quotes same decided case held contracts for work and materials: to supply and install machinery in a building *Buxton v. Bedall* [1803] 3 East 303 *Clark v. Bulmer* [1843] 11 M. & W. 243 *Appleby v. Myers* [1867] L.R. 2 C.P. 651 *Stewart Gill Ltd v. Horatio Myer & Co. Ltd.* [1992] Q.B. 600, 603, to renew and alter the engines and other machinery in a ship *Anglo-Egyptian Navigation Co. v. Rennie* [1875] L.R. 10 C.P. 271, to erect a building *Tripp v. Armitage* [1803] 3 east 303 *Young & Marten Ltd. v. McManus Childs Ltd* [1969] 1 A.C. 454, *Laminated Structure & Holdings Ltd v. Eastern Woodworkers Ltd* [1962] 32 D.L.R. *Aristoc Industries Pty Ltd V. R.A. Wenham Pty Ltd* [1965] N.S.W.R. 581 *Reg. Glass Pty Ltd v. Rivers Locking Systems Ltd* [1968] 120 C.L.R. 516 *Brunswick Glass Co. Ltd. v. United Contractors Ltd* [1975] 12 N.B.R. 631, to construct a built-in cocktail cabinet in a house *Brooks Robinson Pty Ltd. v. Rothfield* [1951] V.L.R. 405, to fit new brake-linings to a car *Stewart v. reavell's Garage* [1952] 2 Q.B. 545, *G.H. Myers & Co. v. Brent Cross Service Co.* [1934] 1 K.B. 46 *Helicopter Sales Pty Ltd v. Torto- Work Pty Ltd* [1974] 132 C.L.R. 1.

¹⁸⁵ Benjamins' on sale of goods

provide services in relation to the shipbuilding transaction is in line with the Court decision. This additional transaction does not change either the nature or the qualification of the contract remains a sale of goods one.

The most challenging contract is the one involving the creation of a product to be delivered in performance of the contract. Here the work is nothing more than a mere component of the thing being produced. The Court has affirmed that there is no logic in questioning what had been agreed before between the performance of work and the transfer of property. They have contracted for both¹⁸⁶. Two cases provide an attempt to resolve the problem however (even though) each gives a different interpretation. A decision of these problems can be reached only applying a theory or another, unfortunately there is no reconciliation between these two rules¹⁸⁷. The first case is *Clay v. Yates*¹⁸⁸ where Mr. Justice affirmed that the Court should qualify the contract on the basis of the importance of the two different components, not perhaps on the basis of their value. This case has been rejected by the *Lee v. Griffin*¹⁸⁹ where a contract to make and fit dentures for a patient was considered for a sale of goods. Mr. Justice has denied the importance of test related to the value of work or material. Perhaps, he affirmed that a contract aiming to transfer for a price from B to A a chattel in which A had no previous property, it is a contract for the sale of goods. In 1935, the Court of Appeal reintroduced the criterion of importance rejected in *Lee v. Griffin*. In *Robinson v. Graves* Mr. Justice purportedly reaffirmed the criterion of *Clay v. Yates* but in relation to the substance of the contract instead of the essence of the contract. Thus, “*if the substance of the contract was the production of something to be sold, then that is a sale of goods. But if the substance of the contract, on the other hand, is that skill and labour have to be exercised for the production of the article and that it is only ancillary to that that there will pass from the artist to his client or customer some materials in addition to the skill involved in the production on the portrait, that does not make any difference to the result, because the substance of the contract is the skill and experience of the artist in producing the picture*”¹⁹⁰. The two positions cannot be reconciled and a

¹⁸⁶ Benjamins’ sale of goods *Hyundai Shipbuilding & Heavy industries Ltd. v. Papadopoulos* supra and *Stoczina Gdanska S.A. v. Latvian Shipping Co.* Supra.

¹⁸⁷ Benjamins’ on Sale of Goods

¹⁸⁸ [1856] 1 H. & N. 73

¹⁸⁹ [1861] 1 B. & S. 272

¹⁹⁰ [1935] 1 K.B. 579, 587

decision on this issue can not be reached by adopting only one or the other of these equally arbitrary rules¹⁹¹.

After this analysis of the leading English and Italian cases we can draw some conclusions. In the agreement at the stake the private autonomy is the most important source. This statement made in the first part of this work, regarding the standard forms, has found a confirmation in the general rules regulating the sale of goods. A deal to build a vessel might be structured by the party as a sale of goods or as a contract agreement. However, when the parties do not settle the nature of the agreement, it is done so by the Court. In the most difficult cases (shipbuilding contract), the Court uses the principle developed by *Lee v. Griffin*¹⁹². This principle affirms that the qualification must be done looking at the substance of the contract. If the deal aims to the transferring for a price of a chattel in which the buyer had no previous property, it is a contract for sale of goods. This principle has something in common with leading Italian sentences in which the Italian Supreme Court has affirmed that the distinction between a sale of good agreement and a contract agreement must be based on the substance of the contract as well as the English Court. A third point is that the Sale of Good Act might be regulating the transferring of property right on an under-construction ship or an unregistered vessel. The transferring of property over registered ship is regulated by the English Merchant Shipping Act or by any other similar regulation on the basis of the flag of the ship. It is a consequence of the application of the flags rule, which is the main criterion to find the ship nationality. Then, the party usually decide to settle the deal as a sale of goods one. Perhaps, English courts have begun to apply to shipbuilding contract the same construction law principles on the basis of its peculiarity. This application has been welcomed by the legal expert in the field because it aims to mitigate some critical aspect of the usual settlement of parties' interest. In the end, we can affirm that because of its complexity the contract remains a hybrid agreement. Some statutory rules, contained in the Sale of Goods Act, must be applied because its substantial aim is to transfer the property over a good with a money consideration.

CHAPTER III

SHIPBUILDING AND INTELLECTUAL PROPERTY IN EUROPE

¹⁹¹ Benjamins' on Sale of Goods, the A. affirms that in *Robinson v. Graves* Mr. Justice overlooked the fact that what passes to the client is not the materials but the finished picture, of which both the work and the materials are components. The A. quoted a decision *Deta Nominees Pty Ltd v. Plastic Products Pty Ltd* [1979] V.R. 167 where the Court affirmed that the test in *Robinson v. Graves* was illogical and unsatisfactory and the test in *Lee v. Griffin* was to be preferred.

¹⁹² See *supra*

3.1 THE IMPORTANCE OF INTELLECTUAL PROPERTY IN THE EUROPEAN SHIPBUILDING MARKET 3.2 GENERAL FEATURES OF EACH IP's RIGHT. 3.3 INTELLECTUAL PROPERTY AND SHIPBUILDING: IP's RIGHTS FITTING WITHIN THE SPECIFIC SECTOR. 3.4 IP's RIGHT AND ENGLISH SHIPBUILDING CASE LAW: WHAT HAVE THEY DISCUSSED ABOUT? 3.5 CONCLUSION

3.1 THE IMPORTANCE OF INTELLECTUAL PROPERTY IN THE EUROPEAN SHIPBUILDING MARKET.

European States and European Union have given a great importance to shipbuilding market a great importance. The industry at stake has a historic relevance in Europe where there is also a market based on shipping satellite activities. Today, the emerging economies are challenging the historic European supremacy¹⁹³. In the developing economy, shipbuilders operate in a completely different situation characterised by low labour cost, State aid and a low standard of safety.

In the shipbuilding sector, as a business with significant use of technologies, competitiveness means for the builder a possibility to maintain its market position or to improve it¹⁹⁴. There is no other way to raise the competitiveness of the European shipbuilders than to invest in research and development. As a consequence of huge investments, we have to find the best way both to remunerate them and to legally protect them.

The shipbuilding sector differs from other high-tech sectors because the business does not fit properly with traditional intellectual property schemes¹⁹⁵. The particularity, which has been already shown in the course of the previous paragraphs, on the nature of the shipbuilding contract, shapes the use of any intellectual property protection tools. This difficulty is based on the unique characteristics of shipbuilding production logistics and regulatory environment. The shipbuilding sector has tackled a huge commitment in regard of intellectual property protection. Even though multilateral trade rules

¹⁹³ CESA “*Shipbuilding intellectual property handbook*”, Bruxelles, 2008

¹⁹⁴ CESA “*Shipbuilding intellectual property handbook*”

¹⁹⁵ CESA “*Shipbuilding intellectual property handbook*”

effectively cover most of the international industries,¹⁹⁶ the shipbuilding is not protected by these multilateral trade rules. This is the reason why the European Union supports the creation of an agreement regulating the international shipbuilding. The European Union considers this instrument the best tool to protect this vital sector. In addition, to the general commitment of the European Union to promote a fair world market, the European policy on shipping has been based on four pillars¹⁹⁷. This is possible only with the promotion of international forums where governments can discuss about shipbuilding and its related matters. The OECD has tried to agree upon an agreement on shipbuilding. However it did not enter in force because U.S.A. had failed to ratify it.

The International Maritime Organization has reinforced the challenge related to intellectual property protection¹⁹⁸. The new regulatory frame has created new challenges in the building sector. Some tools as the Ship Construction File represents a new challenge for building, engineers or architectures firms as well as the Efficiency Design Index. In this context, given the importance of innovation and technological developments, within the European maritime technology industry, IPR has to be sufficiently respected and its protection has to be strengthened¹⁹⁹.

The shipbuilding is a high-tech industry and the success in it is essentially based on knowledge²⁰⁰, innovation, optimization of systems and a sophisticated design production and planning method²⁰¹. The intellectual property rights foster innovation and investment by ensuring that the creators of new invention, trademarks and industrial design can reap the benefits of their creation without the risk of competitors being able to commercially exploit imitations of their ideas²⁰². Even though there is a great attention on this topic, it seems that the given systems of protection do not take into consideration the particularity of the shipbuilding sector. The enforcement of property rights is difficult for different reasons. There are essentially: i) burden of proof on the

¹⁹⁶ European Commission *“LeaderShip Initiative: defining the future of European shipbuilding and shiprepair industries”*, 2015, Bruxelles

¹⁹⁷ European Commission *“LeaderShip 2020: The Sea: New Opportunities for the Future”*, Bruxelles, 2015 the pillars are: i) innovation, ii) zero-pollution, iii) specialisation, iv) energy efficiency v) diversification.

¹⁹⁸ This is not the specific case of this research however the IMO has created some construction standard in order to increase the ship efficiency and to reduce its impact on the environment.

¹⁹⁹ European Commission *“LeaderShip 2020”*

²⁰⁰ CESA *“Shipbuilding Intellectual Property Handbook”*, Authors affirmed *“With the globalisation the world economy and trade have never been as transparent and interlinked as now [...] The purpose of intellectual property protection is to encourage people to create and continue to create by giving the right of protection and commercial reward”*

²⁰¹ European Commission *“LeaderShip 2015”*

²⁰² European Commission *“Study on Competitiveness of the European Shipbuilding Industry”* Rotterdam, 2009

plaintiff and ii) high costs of protection and litigation. In addition to these general enforcement difficulties there is a limitation of protection in respect of the international trade needs. This is the case of patent protection for vessels at Art. 5^{ter} Paris Convention where it is affirmed that *“The use on board vessels of other countries of the Union of devise forming the subject of his patent in the body of the vessels, in the machinery, tackle, gear and other accessories, when such vessels temporarily or accidentally enter the waters of the said country, provided that such devices are used there exclusively for the needs of the vessel”* shall not be considered as infringements. The reason behind this article is that the conformity of the vessels to patent laws of each jurisdiction in which it enters during its lifetime would restrict international commerce. The reason of such provision must be found in the supremacy of international commerce on intellectual property rights having regard to the importance of ship, as a mean of transport, in the international trade²⁰³. The United States Court of Appeal has confirmed this interpretation affirming that the article intends *“to place foreign-owned means of international transport beyond the reach of domestic patentees’ exclusive rights because the cost of complying with multiple, inconsistent rights of exclusion provided by the patent regimes of a large number of countries would likely place an excessive drag on international commerce”*²⁰⁴. In Europe, the United Kingdom Court of Appeal applied the principle in 2003²⁰⁵. It was the case of the Irish Ferries registered in the Republic of Ireland operating by crossing between Dublin and Holyhead three to four times a day. Stena affirmed that the vessel had been built infringing a patent of Stena. The patent in question was registered by Stena in some European Union Countries including the United Kingdom but excluding Ireland. Therefore the case was brought by Stena in front of an English Court. The English Court affirmed that the valid patent owned by Stena couldn’t be governed by the UK Patent Act because, based on the Art. 5^{ter} Paris Convention as interpreted by the US Case law on Section 272, the word *“temporarily”* means *“for a limited time”* or *“transient”*. In this way, under UK law was impossible to enforce the Stena patent on the basis of Art.5^{ter} aiming to facilitate the international trade and movement of people. The enforcement would have been possible if Stena had registered its patent in Ireland.

²⁰³ European Commission *“Study on Competitiveness of the European Shipbuilding Industry”* Rotterdam, 2009.

²⁰⁴ *National Steer Car Ltd v. Canadian Pacific Rialway* Case 03- 1256

²⁰⁵ *Stena Rederi AB v. Irish Ferries Ltd.* [2003] R.P.C. 120: 668-680

3.2. GENERAL FEATURES OF EACH IP'S RIGHTS.

The need to defend the inventions has created the intellectual property law. We use this term in the largest way in order to include also the industrial property²⁰⁶. The standardization of the production and the standardization of products have pushed the firms to require a protection of their inventions and discoveries. These are both a way to acquire new markets and new consumers and a way to promote the investments in research and development. The market is free from any type of rule regulating the use of common knowledge. The problem is represented by the need to protect the effort, financed by firms or individuals, to use the common knowledge for developing new products, new methods of production or, in general, the final product of a research activity. Of course, the reason behind the intellectual property law is not to forbidden to everyone except the inventor or the owner to use new methods or new products. The aim is to grant a proper return to the ones who have devoted time and funds into the research project²⁰⁷. The risk is high. On one hand, it is easy to legislate in a too protectionist way but on the other hand the risk is represented by a low level of protection. The market asked the intellectual property law to estimate the intensity and the extension²⁰⁸ of intellectual property rights in order to grant a fair access to the market and a return on research. The fundamental principles in the interpretation of any intellectual property regulation are to balance it with the trade regulation. A good intellectual property law is the one with the minor competition cost²⁰⁹. On this basis, we can affirm that not every idea is worth being protected. The consequences of this assumption is the fact that intellectual property rights are a *numerus clausus* in sense that the research, the money and time spent in this activities and even the discovery itself it is not sufficient for granting an *erga omnes* protection. The protection is granted by the legal system with a specific title of protection. The limitation of the protection to a closed number of public titles has created lot of problems. It is the case of vegetable types, biotechnologies, software, microchips, industrial design, market ideas and knowhow; these categories are now well-established intellectual property rights, which have waited for a legal recognition for years²¹⁰.

²⁰⁶ V.MANGINI A.M. TONI “*Manuale Breve di Diritto Industriale*”, Padova, 2015

²⁰⁷ A.VANZETTI V. DI CATALDO “*Manuale di Diritto Industriale*”, Milano, 2012

²⁰⁸ V.MANGINI A.M. TONI “*Manuale breve di diritto industriale*”

²⁰⁹ M.MANGINI A.M. TONI “*Manuale breve di diritto industriale*”

²¹⁰ M. MANGINI A.M. TONI “*Manuale breve di diritto industriale*”

The main international treaty on the intellectual property protection, the Union Convention of Paris and the Trade Related Aspects of Intellectual Property Agreement (TRISP), recognises patents, utility model and industrial design, trademark, geographical indications, software and, as a residual protection, the unfair competition and unfair competition in the licensing activities²¹¹.

At the international scene we have a general description of different intellectual property titles aiming to create a common international legal framework for intellectual property rights. Today, some of the most important intellectual property national laws are harmonized because they have implemented international instruments perhaps identical legal Acts might create different rules²¹². Identical Acts do not guarantee a worldwide identical application. Every text is interpreted in its legal order on the basis of interpreter's legal background but it is sure that some intellectual property titles have a very similar regulation²¹³. There are many international instruments regulating the patents. The intention to create an international common legal framework for discoveries and inventions has led to the creation of many *supra*-national conventions. On the international floor, the first stone was the Union Convention of Paris in 1883. At that time, the Convention developed the Union principle on the basis of which the claimant as to file a subsequent application in another country for the same invention, design, or trademark effective as of the date of filing in the first application. The Treaty of Washington has allowed intellectual property offices all over the world to cooperate. Then, the TRIPs Agreement has included some principles of the Paris Convention and it represents the modern common international standard for the protection of intellectual properties. At the European level there have been different attempts to create common instrument of protection or at least a shared European standard of protection. In 1963, the Council of Europe issued the Strasbourg Convention where there were many unified rules for applying a patent. The Munich Convention on European Patent incorporated these rules.

In the TRIPs, the article 27 of the TRIPs introduces the patent regulation²¹⁴. The TRIPs regulation on patent represents the highest standard requested by industrialized States

²¹¹ The Italian Intellectual Property Code has taken the definition of the Union Convention of Paris with a broaden meaning.

²¹² A.VANZETTI V. DI CATALDO "*Manuale di Diritto Industriale*"

²¹³ A.VANZETTI V. DI CATALDO "*Manuale di Diritto Industriale*"

²¹⁴ Article 27 of TRIPs Agreement "1. Subject to the provisions of paragraphs 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. (5) Subject to paragraph 4 of

and it has demanded a great implementation effort to developing countries²¹⁵. In the Article is described what is patentable and the condition for being patentable. On the basis of Article 27 it is patentable “*whatever product or process*” which are as “*new*” products and are the consequences of an “*inventive step and are capable of industrial application*”. The TRIPs agreement avoiding any exclusion in relation to the field of technology protected by the TRIPs brought an important innovation in the subject. In the Annex II of Document Prepared by the International Bureau of WIPO called “*Existence, Scope and Form of Generally Internationally Accepted and Applied Standards, Norms for the protection of Intellectual Property*”²¹⁶ The World Intellectual Property Organization, created by the Union Convention of Paris and now an independent agency in the United Nations system, has given its requested advice to the Negotiating Group on Trade Related Aspects on Intellectual Property Rights. In the document it has been highlighted that patents are generally available in all fields of technologies, even though some States excluded patent protection for technologies in certain field²¹⁷. These fields were pharmaceutical products, agricultural machines or food processes for example. The Article 27 of the TRIPs affirms that patents should be available in all fields of technology. This provision therefore limits the longstanding practice of excluding the patentability of technologies in certain field. It affirmed that the protection is extended to products as well as the process²¹⁸. The TRIPs regulation has also introduced some new principles on the international floor. The Article that we are commenting has introduced the principle of non discrimination under which, except for special provision like the exclusion of the patentability for plants and vegetables, the patent and its related rights must be granted “*without discrimination as to the place of*

Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. 2. Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect order public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law. 3. Members may also exclude from patentability:

(a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals;

(b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement.”

²¹⁵ P.T. STOLL F.SCHORKOPF “*WTO- World Economic Order, World Trade Law*” in Max Planck Institute for Comparative Public Law and International Law, Leiden/Boston, 2006

²¹⁶ WIPO, MTN.GNG/NG11/W/24 Rev. 1, WO/INF/29, September 1988

²¹⁷ WIPO, MTN.GNG/NG11/W/24 Rev. 1, WO/INF/29, September 1988

²¹⁸ P.T. STOLL F.SCHORKOPF “*WTO- World Economic Order, World Trade Law*”

invention, the field of technology and whether products are imported of locally produced". In a leading case involving the European Union, at that time European Community, and Canada on Patent Protection of Pharmaceutical Products²¹⁹ this principle has been applied to avoid any national attempts to link the protection to an advantageous economic activity in the country. On one hand, the TRIPS has made the patent available in every field of the technology, on the other, it has taken into account the necessity to protect the public interest creating barriers against an abuse of patent applications. Then (or Afterwards), a patent application might be refused by a member state in case it is a danger for the public order or morality. The reasons behind the TRIPs, and more in general the WTO, regulation has conditioned national patents in regard of the necessity of protecting the public interest by refusing the patent application and the absence of any kind of a prior prohibition. TRIPs allows member States to create limited exception to the patent. However, these must *"do not unreasonably prejudice the legitimate interests of the patent owner"*.

With regard to trademarks, the TRIPs Agreement has included some principles of the previous Paris Convention. It has now particular attention aiming to define the object, the rights, the use and the license²²⁰. In fact, the aim was to force emerging economies to grant a minimum standard of protection of trademarks. The Article 15 of TRIPs contains a unified international definition of trademark²²¹ as *"Any sign, or any combination of signs, capable of distinguishing the goods o services of one undertaking from those of other"*. The article finds some applicable signs, however, the member

²¹⁹ WT/DS114/R.17/03/2000

²²⁰ P.PICONE A.LIGUSTRO *"Diritto dell'Organizzazione Mondiale del Commercio"*, Padova, 2002

²²¹ Article 15 of TRIPs *"Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks. Where signs are not inherently capable of distinguishing the relevant goods or services, Members may make registrability depend on distinctiveness acquired through use. Members may require, as a condition of registration, that signs be visually perceptible.2. Paragraph 1 shall not be understood to prevent a Member from denying registration of a trademark on other grounds, provided that they do not derogate from the provisions of the Paris Convention (1967).3. Members may make registrability depend on use. However, actual use of a trademark shall not be a condition for filing an application for registration. An application shall not be refused solely on the ground that intended use has not taken place before the expiry of a period of three years from the date of application.4. The nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark. 5. Members shall publish each trademark either before it is registered or promptly after it is registered and shall afford a reasonable opportunity for petitions to cancel the registration. In addition, Members may afford an opportunity for the registration of a trademark to be opposed."*

states are not bind to protect those signs or combinations of sign with the trademark²²². The Case Law of the WTO has made its position on this point. The Appellate Body has made this distinction on the quoted decision issued between United States and European Union. The latter has tried to convince the Appellate Body that the article under discussion was to be intended as containing a mandatory list of sign or combination of signs to be protected. However, the Appellate Body affirmed that the article defines these signs or combination of signs as *capable of* or *eligible for* protection. It does not affirm that all signs or combinations of signs, which are capable of protection, shall be protected. In this way, article 15 makes a qualification. It says that these signs or combinations of signs are qualified for, but not necessarily entitled to, protection²²³. In this decision the Appellate Body has explained the aim of the article thus it “*confers to the owner of a registered trademark an internationally agreed minimum level of exclusive rights that all WTO members must guarantee in their domestic regime*”. Before this article, the trademarks were protected by the Union Convention of Paris at Article 10*bis* as emended in 1967. The TRIPs provides a protection for geographical indications. Article 23 obliges Members to prohibit the use of such indications if the goods do not originate from the place indicated.

The Industrial Design has found a place in the TRIPs regulation but without a differentiation between design patent and utility patent. The definition given by the TRIPs embraces the two main approaches with regard of industrial design protection. The Article 25 affirms that Members must protect independently created industrial design as long as these are new or original. The novelty approach is an expression of the patent approach meanwhile the originality approach is an expression of the copyright approach. Trademark and Industrial Design regulations give Member States the possibility to limit the exploitation of these titles. This possibility is limited and must not discriminate titles holders.

The copyright is one of the most comprehensive rights regulated by the TRIPS. Since the adoption of the TRIPs Agreement the main source of regulation of copyrights has been the Berne Convention. In respect of this importance, the article regulating the copyrights makes a reference to the Berne Convention. Integrated circuits are protected in the TRIPs Agreement, however there is not a deep regulation of these titles.

²²² *United States- Section 211 Omnibus Appropriations Act of 1988* WT/DS76/AB/R 2 January 2002

²²³ *United States- Section 211 Omnibus Appropriations Act of 1988* WT/DS76/AB/R 2 January 2002

As a residual aspect, within the scope to regulate the trade aspect related to intellectual property at Part II of the TRIPs there are articles protecting the undisclosed information, know-how and the measures for abolishing the anti-competitive practices. In relation to know-how TRIPs does not affirm too much. There is just an obligation to protect undisclosed information against unfair competition within an explicit reference to Art. 10 *bis* of Paris Convention. Furthermore, the Article 40 addresses the issue of anti-competitive practices related to the use of intellectual property rights. This article allows Member States to deal with licensing practices or business practices which might in certain way affects the fair competition.

3.3. INTELLECTUAL PROPERTY AND SHIPBUILDING: IP's RIGHTS FITTING WITHIN THE SPECIFIC SECTOR.

There are many different existing titles of intellectual properties. In the following chapter we would redefine the legal structure in which the modern intellectual property law is defined. We are now focused on the linkage between intellectual property rights and shipbuilding. The aim of this paragraph is to understand briefly which of the intellectual property titles are relevant for the shipbuilding sector. In the following part, we will enter into the intellectual property legal regime and we will try to define the best way to protect the intellectual property in the sector.

The World Trade Organization defines intellectual property rights as *“the rights given to people over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creations for a certain period of time”*. There are many different intellectual property titles. In the shipbuilding sector the most relevant category is the industrial property and copyrights²²⁴. Under the label of industrial property there are many specific property titles: patents, trademarks, industrial design geographical indications²²⁵. In the shipbuilding sector the most used Intellectual Property rights are: patent right, utility model, designs, copyrights and trademarks²²⁶. Patents are titles protecting functional and technical result²²⁷. These discoveries might be incorporated in products, processes or they might provide an upgraded versions of

²²⁴ European Commission *“Study on Competitiveness”* and CESA *“Shipbuilding intellectual property handbook”*

²²⁵ European Commission *“Study on Competitiveness”*

²²⁶ CESA *“Shipbuilding Intellectual Property Handbook”*

²²⁷ CESA *“Shipbuilding Intellectual Property Handbook”*

them. Patents are the most straightforward tool compared with other Intellectual Property tools. They are generally characterised by novelty, inventive activity and industrial application. However, there are many shortcomings in the modern patent system. First of all, there is an absence of a unified international patent title. There is a European patent but the applicant obtains different national titles with one application. The Patent Cooperation Treaty gives the same effect in each designated country. A Community Patent is coming but it does not exist yet. Due to this situation, there is no international patent and the national enforcement process might be very expensive and unpredictable. The second most common intellectual property right in the shipbuilding is the utility model. In this title, the technological threshold is less demanding than in the patent, thus it is also called “small patent “ or “short term patent”²²⁸. The novelty requirement is obligatory but the inventive requirement does not need to be met²²⁹. There are some advantages in utility model such as easy and fast registration process the European shipbuilding sector does not use it too much though²³⁰. The different number of application between Europe and Asia reflects the different culture in regard of utility model, which are considered a second-class title in Europe²³¹. The other title refers to design. This right is granted to the appearance of a part or the whole product. The shortcomings of this title are the absence of any technical aspects in the design protection; this type of protection does not apply to parts incorporated into complex products and are not visible. The registered designs are not frequently used in the shipbuilding industry because it is often used for branding purposes. Therefore, only certain markets are interested in design protection, for example yachts²³². The copyright in the shipbuilding sector is used to protect computer software, any drawing, map, chart of plan, photographs, films, three dimension works related to architecture or science and in general what has a more artistic features²³³. The last title is the trademark, it is a sign by which a business identifies its products or service and distinguishes him from other. There are other two ways to protect the intellectual property without the classical title

²²⁸ CESA “*Shipbuilding intellectual Property Handbook*”

²²⁹ CESA “*Shipbuilding intellectual Property Handbook*”

²³⁰ CESA “*Shipbuilding intellectual Property Handbook*” whereas in Asia shipbuilding countries the volume of applications is all most the same for the patents.

²³¹ CESA “*Shipbuilding Intellectual Property Handbook*” the Authors write “*The European industry prefers patents both for image and commercial purposes. For the shipbuilding sector, the short protection period is often deemed as insufficient taking into consideration the long duration of R&D projects and the long production cycle. Nevertheless, in many Asian countries, utility model applications are being encouraged because it is cheaper and the requirements for inventive step is minimum*”.

²³² CESA “*Shipbuilding Intellectual Property Handbook*”

²³³ CESA “*Shipbuilding Intellectual Property Handbook*”

granted by national laws. These ways are the application to national unfair competition law; some leaks and use of intellectual property might be dealt with by the national unfair act²³⁴. Contractual clauses are the other way to protect intellectual assets²³⁵. Of course, the protection of know-how or business secret might be used to protect intellectual assets but this type of protection has some shortcomings. The tool protecting business secrets is a contract and its binding effect is limited to contractual parties²³⁶.

3.4. IP'S RIGHTS AND ENGLISH SHIPBUILDING CASE LAW: WHAT HAVE THEY DISCUSSED ABOUT?

The most relevant category of intellectual property, which means the rights given to people over the creations of their minds, is the industrial property²³⁷. This latter category includes patents, trademarks, industrial designs and geographical indications. Among these titles, the Community of European Shipbuilder Association (CESA)²³⁸ has been indicated as the mostly used intellectual industrial property: patent, utility model, design and trademark²³⁹. These are very important titles for the shipbuilding sector because within them the builder might protect most part of its vessels, however, some of them have shortcomings.

The applied research has allowed to understand the practical difficulties in protecting the intellectual property of an international firm. Public titles of protection have to be enforced at the national level and every nation has its own law and its own procedure. A contractual protection is binding only the parties of the contract so an *erga omnes* protection cannot be guaranteed within a contract. The situation is not so bad as it may appear. On one hand, nations have been moving forward in the creation of a unified intellectual property protection system so we can apply for a unified title of protection instead of national titles protection. On the other hand, European private law has already developed certain type of unified instruments; these allow us to achieve a better protection than using exclusively the national contractual law.

Standard forms usually address the problems of intellectual properties on the public. The clause stipulating the issues related to intellectual properties is divided in three

²³⁴ European Commission “*Study on competitiveness*”

²³⁵ European Commission “*Study on competitiveness*”

²³⁶ CESA “*Shipbuilding Intellectual Property Handbook*”

²³⁷ European Commission “*Study on Competitiveness*”

²³⁸ <http://www.cesa-shipbuilding.org>

²³⁹ CESA “*Shipbuilding Intellectual Property Handbook*”

commas where one article is named “*Patents, trademarks, copyrights etc.*” and another “*Property in plans, drawings, etc.*”²⁴⁰. The first comma of the article contains a statement that is usually the following: “*Machinery and equipment of the vessels may bear the patent number, trademarks or trade names of the manufacturers. The builder shall defend and save harmless the buyer from patent liability or claims of patent infringement of any nature of kind, including costs and expenses for, or on account of any patented or patentable invention made or used in the performance of this Contract and also including costs and expenses of litigation, if any. Nothing contain herein shall be constructed as transferring any patent or trademark rights or copyrights in equipment covered by this Contract, and all such rights are hereby expressly reserved to the true and lawful owners thereof*”. This clause aims to maintain the buyer free from any kind of disputes on the patents, trademarks and copyrights related to the machinery and equipment employed in the vessel. The guarantee provided by the builder does not cover the buyer’s supplies that are delivered under buyer’s responsibilities. Of course, the indication of machineries and equipment covered by a patent or other title of property as object of the contract does not imply an acquisition of property over the intellectual property title. The contract covers the construction of vessels within a certain type of technical features. The other comma states general plans, specification and working drawings. It usually contains an agreement like that “*The builder retains all the rights with respects to the specification, and plans, and working drawings, technical descriptions, calculations, test results and other data, information and documents concerning the design and construction of the vessel and the buyer undertakes therefore not too disclose the same or divulge any information contained therein to any third parties, without the prior written consent of the builder, excepting where it is necessary for usual operation, repair and maintenance of the vessel*”. The use of design and construction methods, for example, owned by other is quite common even in the most innovative shipbuilding projects. The builder is bound to acquire any licenses required for the use of the material or the design²⁴¹. Some contracts contain a warranty by the builder that the project does not infringe any third parties patent or intellectual property rights. The NEW.BUILD.CON. Form differs from other samples and it contains a warranty provided by a party to another. The SAJ Form contains an

²⁴⁰ S. CURTIS “*The Shipbuilding contract*”

²⁴¹ S. CURTIS “*Shipbuilding Contract*” and also *Angel Atlas Compania Naviera S.A. and others v. Ishikawajima-harima Heavy industries Co. Ltd.* [1990] Lloyd’s Vol. 1 pag. 168

indemnity against the consequences of infringement of intellectual rights. Curiously, this protection does not cover breach of trademark, copyright and design right. In the CMAC Form the indemnity is limited to patent infringement. In contrast, the same type of provision would be applicable to all type of intellectual property infringement if contained in the NEW.BUILD.CON. Form. The contract usually contains a clause stipulating that the builder is to retain title to all plans, drawings and other data related to design and construction of the vessel. This clause is usually followed by an obligation of the buyer to not divulge information other than when required for the purposes of the vessel's operation or subsequent on-sale²⁴².

Among the existing titles of intellectual property, the one with a more complete protection scheme is the design one. As it has been affirmed by a prominent doctrine, a protection to industrial design is substantially provided by the European Union law that has created a European Union Unified Design Title²⁴³.

The Design issue is a sensible question in the building agreement. English Courts have given different sentences over these issues because the problems with the design of a new build do not emerge until the trading commences and their consequences tend, therefore, to be more serious than those arising from inadequate workmanship or materials²⁴⁴. Even if the design brings a large amount of problems, standard forms do not precisely stipulate the allocation of the design risk over parties²⁴⁵. Design right is granted to the appearance²⁴⁶ of a part however the design risk is always related to the function of the ship²⁴⁷. The design risk might be addressed or not in the contract. The fact that a classification society has approved the design does not reduce the responsibility of the builder. This is the famous American Court case "*Amoco Cadiz*"²⁴⁸. The Amoco Cadiz was owned by Amoco Transport Co. and had been designed and constructed in Cadiz by a Spanish corporation. The American Bureau of Shipping had approved its steering gear. In March 1978 the Amoco Cadiz with a cargo of 121,157 tons of oil was approaching Western Europe when it sailed into a severe

²⁴² S.CURTIS "*Shipbuilding contract*" the A. affirms "*Under that SAJ Form, however the right to disclose information is limited to matters necessary for usual operation, repairs and maintenance, i.e. there is no specific right in the buyer to divulge details of the vessel's plans and drawings to any on-purchaser. This issues is addressed in the NEWBUILDCON Form, which permits disclosure of plans and drawings to subsequent owners*"

²⁴³ S. CURTIS "*The shipbuilding Contract*" see footnote number 4 pag. 256

²⁴⁴ S. CURTIS "*The shipbuilding Contract*"

²⁴⁵ B.SOYER A. TETTENBORN "*Ship Building, sale and finance*" InformaLaw, 2015

²⁴⁶ CESA "*Shipbuilding intellectual property handbook*"

²⁴⁷ S. CURTIS "*The Shipbuilding Contract*"

²⁴⁸ [1984] Lloyd's Law Reports Vol. 2

storm. The vessel rolled heavily because it has encountered rough seas and severe winds. Despite the bad weather condition, the helmsmen reported that they experienced no problems. After one day of storm the steering gear of Amoco Cadiz failed. Any attempts to repair the steering gear were unsuccessful. During the night the Amoco Cadiz grounded and oil was seen in the water. Different actions were brought: the subrogated owners of the cargo claimed the value of the cargo, the Republic of France brought an action for oil pollution damage and it also filed action against the Amoco group for negligence in construction, maintaining and operating the ship. In front of Mr. Justice McGarr, the Spanish administration has filed an action against the Spanish builder claiming that the shipyard was negligent in designing and constructing the ship. The owner has also filed an action against the shipbuilder requesting an indemnity or a contribution from him in case they were found liable to the first claimant²⁴⁹. The construction related facts were the following. Amoco Cadiz was the third of four motor tankers constructed in the early 1970 by the Spanish builder. The builder designed, manufactured, assembled and tested the steering gear and the American Bureau of Shipping certified it. The Spanish builder named Astilleros²⁵⁰ owns the technical knowledge to develop a correct project. This was established by the discussions among the shipyard representatives and the Amoco representatives who went to visit the Spanish shipyards of the builder. The builder has a large technical department with all the technicians to design the ship. The construction contract required that the builder submits the general plans for approval to the owners - before the construction. The Amoco Cadiz contract required the ship to be built according to the rules of the American Bureau of Shipping that is a classification society based in New York with an office in London. The Amoco appointed a representative at the shipyard who was in charge to accept the plan on behalf of Amoco. The representative had to base his consideration on two points: i) compliance with the written description and ii) correspondence with intended purposes. Amoco did not design the ship and any of its components. Amoco did not perform any calculations. The builder was responsible for these activities. The American Bureau of Shipping followed the construction of the vessels at the shipyard. However, the reality demonstrated that no real description or project was delivered to

²⁴⁹ The shipbuilder tried to based its defence on the *forum non conveniens* doctrine affirming that the judge has not jurisdiction both for subject and personal matter. The Court ruled that it had personal and subject matter jurisdiction. This sentence was confirmed by the Court of Appeal in *Re Oil Spill by the Amoco Cadiz off the Coast of France on Marc 16, 1978*.

²⁵⁰ The Nina, Pinta and Santa Maria ships were built by this shipyards hundreds of years ago.

the owner or to the American Bureau of Shipping. All the materials were general project for a ship within certain characteristics. The evidence demonstrates that the builder was responsible for the design and construction of Amoco Cadiz. Mr. Justice granted the Amoco claim against the builder. Astilleros was found liable. The Court found Amoco entitled to damages against the shipbuilder because the negligence used for design a part of the Amoco Cadiz. The fact that the design had been approved both by the classification society and the owner did not reduce the extent of the shipbuilders' liability²⁵¹.

In the contract, the design risk might be addressed or not. Under the English law the parties are entirely free to address and to allocate the risk among them. The parties might agree to be responsible for the design. In a Scottish case of *A.M. Gillespie & Co. v. James Howeden & Co.*²⁵² the builder agreed to build a ship within a specific dimension. In these circumstances, it was no doubt that the builder was liable for a shortfall in the vessel commercial use even if the owner had approved the design expressed in terms of a model. Shipbuilding contract contains usually a clause assessing the design risk. As a general rule, if the design is developed by or is under the property of the builder, he is liable for any shortfall. If the project is developed or is owned by the buyer, the builder might refuse to provide any warranty or other assurance that the project is adequate to meet the buyer's operational requirements. In the latter event, the contract might limit the builder obligation to the construction and assembly of the vessels in accordance with plans and drawings supplied to him. When the design risk is not addressed the situation is different. In case of disputes, it will be for the court of arbitration or tribunal to seek to establish the parties' intentions by construing the contract as a whole in light of all the surrounding circumstances²⁵³. The main cases about design liability without parties' allocation of the risk are *Aktiebolaget Gotaverken v. Westminster Corporation of Monravia and Another*²⁵⁴ and *Dixon Kerly Ltd v. Robinson*²⁵⁵. The first case expressed the view considering the design as a part of the workmanship. The same opinion has been used to maintain the shipbuilding contract under the regulation of the Sale of Goods in Act instead of being regulated by the Construction law. The case was about a well-known Swedish ship repairers and the

²⁵¹ S. CURTIS "*Shipbuilding Contract*" see note number 4 pag. 19

²⁵² [1885] 12 R 800

²⁵³ S. CURTIS "*Shipbuilding Contract*"

²⁵⁴ [1971] Lloyd's Law Reports Vol. 2

²⁵⁵ [1965] Lloyd's Law Reports Vol. 2

respondent is the owner of a ship. In the 1967, the vessel in question suffered extensive fire damages and was brought to the claimant's yard for repair and conversion. The contract describing these works contained a clause such as "*If the material used or the work performed by the shipyard is not in accordance with the contract*". The Justice Donaldson affirmed that the clause at stake refers to workmanship as whole. He did not exclude design errors from the scope of the clause. The shipyard was required to supply certain type of work within the professionalism of a builder both in the design and in the execution. The Mr. Justice did not see any reason for exclusion of builder liability in case of design errors. This approach, as suggested by the Mr. Justice, accords with the common sense and industry practice. It is the business of shipbuilders to build the ship that is why the basic responsibility for the design risk should rest with the builder. In certain case, the position might be different, for example in innovative project or when the design is provided by the buyer or by a third person. In this case, if the contract lacks risk allocation, the builder usually provides no warranties. This has been affirmed in the case *Dixon Kerly Ltd. v. Robinson*²⁵⁶. The case was between a builder and a purchaser for a yacht with a new design built by the builder. In this case, the design was provided by a third party in accordance with the expressed request of the purchaser. The facts have shown that the shipbuilder obligations were merely to construct the yacht in accordance with the plans and drawings supplied to him and that no warranty could be implied.

The design risk is differently allocated in the standard forms. There are some templates in which the risk is not addressed as if the author hoped that by ignoring the design issues they might avoid imposing a liability upon the builder. This idea is wrong where the English law is to be applied²⁵⁷. In the SAJ Form is written that the builder shall "*build, launch equip and complete*" the vessel and thereafter "*sell and deliver*" it. This wording is often amended to provide expressly that the builder shall be responsible for the design²⁵⁸. Even if there is no emendation for the reason expressed above, the builder is considered liable for a design shortfall. This view is supported by the prevision in the standard form of a cost for design and supply of drawings. In the NEWBUILDCON Form there is much more clearness in regard of design risk allocation. The clause number one in the form states "*the builder shall design the vessel*". The CMAC Form

²⁵⁶ [1965] Lloyd's Law Reports Vol. 2

²⁵⁷ S.CURTIS "*Shipbuilding Contract*"

²⁵⁸ S. CURTIS "*Shipbuilding Contract*"

declares that “*the seller agrees to design*” the vessel and it would employ a third-party designer only on an expressed “*requirements of the buyer*”. The assignment to a third-party designer outside China ends with a contract for the basic design between the buyer and the designer. In this contract the builder is a subcontractor for the detailed contractor and workmanship. In this case, the builder is not liable for delay or shortfall in the design. On the contrary, if the builder assigns the design task to a third-party designer, it is liable for any shortfall or delay in the design. This kind of approach is not used in international forms instead of in “house form”²⁵⁹.

3.5 CONCLUSION

Shipbuilding has been indicated as a strategic market for the European states. A Market is full of European players, where European firms have a primary role on the basis of their innovative approach to the business and production process. Almost all the important shipyards are located in Europe. The European shipbuilding firms have been investing in research in order to maintain this leading position in the world market. The shipbuilding world looks at European firm as a leading partner both for developing this industry and for purchasing great products. The English law is considered the law of shipbuilding. It is applied indistinctly all over the world. The Arbitration Chamber of London is considered the place to resolve disputes on shipbuilding agreements or in general, maritime questions. To maintain this position means to pursue some policies highlighted by the European Commission and the European Association of Shipbuilders. These policies include raising the protection of European intellectual property among other actions. The highest standard of protection in the sector might be granted by two different actions. On one hand, we have to use the public title of protection within their different national or *super* national nuances and unfair competition rules. On the other hand, we have to use contractual clause and doing so to create a binding relationship between the shipbuilding, ship owner and some third sub-contractors eventually.

Aiming to find the best way to provide this protection, we have seen that the European Association of Shipbuilder has found, in its Intellectual Property Handbook, the patents,

²⁵⁹ When the builder assumes the design risk, provision permitting the buyer to approve the design does not transfer the liability to the buyer see. The Amoco Cadiz Case.

utility models, industrial design, trademarks and copyrights as the best public title to protect their intellectual properties. This project cannot deal with each of this title but the aim is to provide an innovative approach. In this regard, the prosecution of the work needs to be focused on a title which already has a *super* national dimension and which is easily protectable with other acts, such for example, copyright law and unfair competition law. This would also raise the importance of an analysis over the contractual clauses.

On this basis, the patent must be excluded. There is no *super* national regulation at the moment. There are some attempts to create a Unified European Patent, which they have not failed but even not achieved that point yet. The trademark might be interesting to be analysed but looking at the public database, the industrial partner has not used extensively this title. The trademark might be important for other players in the market or other type of smaller project than the one developed by the industrial partner. Among those highlighted by the European Association, the design appears as the most interesting in our research. First of all, the allocation of the design risk is a sensible issue. We have seen that sample forms dedicate attention to this topic and English Courts have released many decisions in this regard. The European Union has shaped the design law among member States at first with the Directive 98/71/CE 13 October 1998 and then it has created a unified title of protection of design within the Regulation n. 6/2002 12 December 2001. Trademark excluded, this activity has created the first European title of intellectual property protection that is protectable with the copyright law and unfair competition law as it is explicitly allowed in the Directive and Regulation.

The design activity is a demanding part of the shipbuilding process. As we have seen at the beginning, the inclusion of the design in the shipbuilding activity was unsure. English Courts have discussed it but now we can affirm that the design is an obligation of the shipbuilder regulated by the particular sale of goods act named shipbuilding agreement. The allocation of design risk is a sensitive issue because the risk of a shortfall in design is proportioned to the performances requested by the purchaser to the builder. Furthermore, the yacht design is a highly specialised job²⁶⁰. The Industrial partner has used the European unified design title and this is the reason to investigate on the best way to protect it in the shipbuilding sector.

²⁶⁰ See the “*Yacht Design*” in Treccani Volume XXI/2010 where there is a description of this activity highlighting its difficulties.

In the following part of the work, the legal framework of the design would be reconstructed and we would then analyse different way to protect it. The other part would be dedicated to contractual protection and problems related to conflicts of law in the protection of intellectual property.

CHAPTER IV

THE INTELLECTUAL PROPERTY LEGAL FRAMEWORK PUBLIC AND PRIVATE METHOD OF PROTECTION.

4.1 INTERNATIONAL SOURCES AND FRAMEWORK. 4.2. EUROPEAN SOURCES AND FRAMEWORK. 4.3 NATIONAL SOURCES AND FRAMEWORK 4.8 THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: CONTRACTUAL CLAUSES.

4.1. INTERNATIONAL SOURCES AND FRAMEWORK

Since the end of the World War II, the relations between industrialized countries and developing world has lead to several revisional conferences aiming to modify the previous framework in which intellectual property was regulated at international level. While a revision of the Berne Convention was concluded quickly, the revision of the Paris Convention ended in a deadlock.

The international regulation of the Intellectual Property was made more difficult by its link with a certain territory. Any titles of protection have an international dimension which is prominent in the today market²⁶¹. In the modern economy, the intellectual property is a fundamental tool for the social economic development. The importance of these tools in the international economy associated with the territorial principle governing the IP, have created the need to find a better way of transnational protection²⁶².

The construction of the new world order was focused on making the new world more liberal than the previous one. On this idea, the winning countries, led by the United States of America, have created a framework of Treaties in order to make business related to goods easier. In the previous international trade regulation, the IP issue was assessed as a matter to be limited in order to reduce the barriers to international trade.

²⁶¹ G.MORGESE “*L’accordo sugli aspetti dei diritti di proprietà intellettuale attinenti al commercio (TRIP’s)*” Bari, 2009 pag. 20 and SENA G. “*Invenzioni industriali (Diritto Comparato e straniero)*” in Enc. Giur..

²⁶² G. MORGESE “*L’accordo sugli aspetti dei diritti di proprietà intellettuale attinenti al commercio*” op.cit.

Perhaps the IP regulation was demanded to other treaty or organizations such for example the Treaties managed by the WIPO²⁶³.

The main item of the TRIPS agreement is to reduce the distortion to international trade caused by different national IP regulations. In this sense the first objective is not to create an international legal framework for IP but to reduce distortions and impediments to international trade²⁶⁴. In the introduction States have stated their aims in signing the TRIPS agreement. The aims are, first, *“to reduce distortions and impediment to international trade”* and, second, the need *“to promote effective and adequate protection of intellectual property rights”*. So, it is clear that the main challenge of the TRIPS agreement is to promote a freer international trade and in doing so, the IP regulation must be promoted. Of course, the promotion of the IP protections, through the TRIPS, promotes an IP regulation which is not itself a barrier to legitimate trade²⁶⁵. The new regulation took into consideration scheduled titles into the introduction to the TRIPS agreement. In particular, States recognized the inefficiency of the previous systems in which there were no common national legal standards. Member States agreed on the need of *“multilateral framework of principles, rules and disciplines dealing with the international trade”*.

The scope of the regulation was included in the article 1. The first article of the Agreement contains several dispositions. Firstly, the article affirms the duty of Member States *“to give effect to the provisions”*. This first disposition regards the implementation of public international law disposition in national legal order. The Agreement is aware of the existence of different way to implement international public regulation into national legal systems²⁶⁶. The way in which States fulfill their duties is described in the national law, the procedure is often contained in the national constitutional law. In the TRIPS agreement, the main duty of Member States is to grant a minimum standards of IP protection. The TRIPS agreement does not create an international title of protection. On the contrary, the idea is to create a minimum

²⁶³ <http://www.wipo.int/treaties/en/> for obtaining an updated overview on Treaties administrated by the WIPO.

²⁶⁴ P-T STOLL J.BUSCHE K. AREND *“WTO- Trade Related Aspects of Intellectual Property Rights”* LEIDEN, 2009 pag. 67

²⁶⁵ It is written in the fourth line of the introduction to TRIPS agreement

²⁶⁶ The doctrine has developed three ways in which States can implement international law into national regulation. These are by transformation, execution or incorporation. The first indicates the transformation of the international law into a domestic law. The execution describes a way with which a treaty is implemented by a governmental application. The incorporation is the way by which the treaty is incorporated into the national legal system. In contrast to execution, the incorporation makes the treaty directly valid in the national system.

common system based on the principle of territoriality. In this regards, the main goal of the trips regulation is to tackle the problems related to territoriality with a common regulation among member States. Of course, Member States are free to create a higher standard of protection although, on the basis of the main aim of TRIPs regulation which is to promote a more liberal international trade, this higher standard must not create a barrier to international trade.

In the TRIPs agreement there is no legal definition of IP. Instead, the article 1.2 refers to every title regulated in the part II of the Agreement. This way to define the IP has led to a discussion on the closed or open nature of this article. If this article has a closed nature, no new titles might be included into the Agreement. In the case *US-Section 221 Appropriation Acts*, the decision bodies of the WTO were asked to decide whether the TRIPs agreement is to be applied to all IP as such or just in relation to IP highlighted in part II. The Appellate Body, rejecting the Panel's decision, has affirmed that the TRIPs agreement is not applicable to all IP titles but it is applicable to the rights that are provided in Part II Section 1-7 of the TRIPs and the titles regulated by its incorporated IP conventions²⁶⁷. In this regard, national rules of other types of IP obligation cannot be affected by the TRIPs regulation²⁶⁸.

The TRIPs Agreement pursues also an aim to create a strong link with the other IP legal instruments, such for example all Agreements governed by the WIPO. This type of relations has its basis on the introduction of the Agreement where, at the last point, the Member States has affirmed the desire to "*establish a mutually supportive relationship between the WTO and the World Intellectual Property Organization*". In this regard, the general rules on international level creates problems because it has been well established that a State cannot be forced to apply a rule contained in a Treaty to which is not a party. The technical problem has been overcome with a material reference contained in article 2 of the Agreement that allows Member States to apply dispositions contained in other Treaties. The Article 2 aims to incorporate the material provisions of the Paris Convention in order to create a uniform starting point for commercial legal protection across the WTO²⁶⁹ and it aims to ensure that the most important international agreement in the area of intellectual property rights will not have their validity infringed

²⁶⁷ P-T STOLL J.BUSCHE K. AREND "*WTO- Trade Related Aspects of Intellectual Property Rights*" LEIDEN, 2009 pag. 85

²⁶⁸ Ibidem

²⁶⁹ P-T STOLL J.BUSCHE K. AREND "*WTO- Trade Related Aspects of Intellectual Property Rights*" LEIDEN, 2009 pag. 99

by the regulation of the TRIPS agreement²⁷⁰. As a relevant doctrine has affirmed, the disposition at stake forces Members to fulfill the duties they have undertaken in previous conventions²⁷¹.

The principles at the basis of the TRIPs regulation are the same as the basis of every single Treaty aiming to make the international trade easier. These two principles are the National Treatment clause and the Most-Favored Nation Treatment. The National Treatment is the most important principle of the world trade law. It has been included in the TRIPs regulation because it is important not to forget, that the TRIPs Agreement aims to create a more *pro-trade* law legal framework. The importance of this clause might be understood by analyzing it. The clause extends the national protection into two senses. The first regards the extension to non-national the law applicable to national holders of IP. The second regards the matter related to IP rights. In this regard, pursuant to footnote of Art. 3 “*protection shall include matters affecting the availability, acquisition, scope, maintenance and enforcement of intellectual property rights as well as those matters affecting the use intellectual property rights specifically addressed in this Agreement*”²⁷². Under the National Treatment clause, a foreign intellectual property is governed by the respective rights which are granted to a national right holder²⁷³. The national protections are not limited to a legal framework. It is not just related to legal issues but it must be granted also with a view to administrative actions or judicial practice. The Panel in *EC-Trademarks and Geographical Indications*²⁷⁴ detected a violation of the national treatment clause. This cause is absolutely important for understanding the way how to interpret the TRIPs national treatment clause. This major principle of world trade law and international intellectual property law is subject to some exceptions. As provided in Art. 3 sentence 1 “*Each member shall accord to the nationals of other Members treatment no less favorable than that it accords on its own national with regard to the protection of intellectual property subject to the exceptions already provided*”. The expression “*exception already provided*” refers to art. 2.3 of

²⁷⁰ Ibidem

²⁷¹ Ibidem

²⁷² Footnote to Article 3 of the TRIPS

²⁷³ P-T STOLL J.BUSCHE K. AREND “*WTO- Trade Related Aspects of Intellectual Property Rights*” LEIDEN, 2009 pag. 152

²⁷⁴ WT/DS174/R The fact relates to the EC Council Regulation (EEC) No. 2081/92 of 14 July 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs. The U.S.A. has requested consultation on this Regulation however the consultation with the EEC failed. The U.S.A. affirmed that the Regulation was inconsistent with the TRIPs Regulation and in particular with the National Treatment.

Paris Convention, art. 2.7 of the Berne Convention, art. 15.1, art. 13 and 16.1 of the Rome Convention and art. 5.2 of IPIC Treaty.

The exception contained in the Paris Convention excludes the application of the principle in respect of legal provision “*relating to judicial and administrative procedure and to jurisdiction, and to the designation of and address for service of the appointment of an agent*”. The exception provision, in relation to judicial and administrative procedures, are admissible only when they are necessary to secure compliance with laws and regulation which are not inconsistent with the provisions of this Agreement and they cannot be applied in a manner which would constitute a disguised restriction on trade²⁷⁵. The Berne Convention contains in its art. 2.7 an exception clause related to works of applied art. These works must be “*protected in the country of origin solely as designs and models shall be entitled in another country of the Union only to such special protection as is granted in that country to designs and models; however, if no such special protection is granted in that country, such works shall be protected as artistic works*”. The Rome Conventions provide some exception in respect of private use and the IPIC Treaty provides an exception which is almost similar to the one proved in article 2.3 of the Berne Convention.

The second basic principle in any International trade agreement is the Most- Favored Nation Treatment. The article 4 of the Agreements contains it. This principle is the cornerstones of the development and liberalization efforts of the GATT²⁷⁶. The clause contained in Article, while it is extremely important for the trade in goods, is not really relevant for the protection of Intellectual Property rights when the standard of protection is low. The fact that intellectual property has intangible nature means that there are no barriers or market access conditions that need to be reduced. The incorporation of this principle in the TRIPs agreement aims to make a difference in the way to protect intangible goods as intellectual property. This clause means to extend, on the basis of a TRIPs obligation, the preferential treatment accorded to the nationals of another Member States while advantages that are granted according to national treatment might be withdrawn at any time. The practical utility of the Principles is still little because States tend to provide the same level of protection to nationals and foreigners so the Most-Favoured Clause is included in the National Treatment Clause. The clause is

²⁷⁵ Article 3.2 TRIPs Agreement

²⁷⁶ P-T STOLL J.BUSCHE K. AREND “*WTO- Trade Related Aspects of Intellectual Property Rights*” LEIDEN, 2009 pag. 160 and *US- Section Appropriations Act*, WT/DSI/AB/R para. 297

applicable to all measures adopted before or after the entry into force of the TRIPS which improve the legal standards of national legal systems of other Members. The principles imply that nationals of other Members acquire a right to equal treatment as soon as nationals of other Member enjoy such favorable treatment, the special treatment must be accorded without any conditions or reservation²⁷⁷. The Most Favored Clause contained a list of exceptions contained into the article 4. The first exception regards international agreements on judicial assistance or law enforcement. On the basis of article 4, any advantages, immunities or privileges derived from that kind of Treaties are not subject to the clause. This exception aims to ensure the bilateral nature of these international agreements. In accordance with the second comma of article 4 the exceptions, privileges of immunities ensured with the Berne Convention or the Rome Convention on the basis of material reciprocity are exempted from the Most-Favored National Clause. Other exception is provided in respect to the rights of performers, producers of phonograms and broadcasting organizations not provided under the TRIPs Agreement. The provisions contained in agreements on Intellectual Property which entered into force before the WTO agreement are the object of the exception contained in comma fourth. The clause aims at enabling Members to exclude certain concession in relation to intellectual property protection made by them in the past from the Most Favored Clause treatment.

The TRIPs agreement does not aim to create a unified or unique regulation of the intellectual property vice versa it aims to provide a better legal ground for the trade in goods. The aim is to protect the intellectual property in order to avoid that intellectual property regulation might become an obstacle to international trade. This kind of protection provided does not avoid any kind of misunderstanding as it is clear the difference between intellectual property as goods to protect or as barrier to trade might lead to a certain amount of misunderstanding. The creation of a minimum international standard of protection does not mean a unification of the law. The differences still exist and they might not be overcome by the TRIPS regulation²⁷⁸.

²⁷⁷ P-T STOLL J.BUSCHE K. AREND “WTO- Trade Related Aspects of Intellectual Property Rights” LEIDEN, 2009 pag. 162

²⁷⁸ G.VENTURINI “L’organizzazione Mondiale del Commercio”, pag. 220

4.2. EUROPEAN SOURCES AND FRAMEWORK.

The discussion on Intellectual property titles into the European law framework has been very challenging. Perhaps, with the last Treaty of Lisbon this discussion has come to an end and the intellectual property rights have been recognised as legal titles linked with the implementation of a real unified market.

The European Community has considered the intellectual property titles as barriers of trade such as the World Trade Organization. Patents, trademarks and these other titles were considered just obstacles on the path of the creation of a not unified market. This consideration was based on the linkage between intellectual property titles and territories²⁷⁹. The first Community approach to the immaterial titles was finalised to the erosion of them. The aim of this limitation was to support the creation of a common market²⁸⁰. In this sense the distinction between existence of IP rights and exercise of the property was created. This distinction leads to the recognition of the existence of national immaterial titles. Perhaps the exercise of these national titles in the common market was subject to European law. Once the European Community has realised the importance of the intellectual property titles, the approach to them has changed. It is a fact that after the identification of this right as an important part for the efficiency of the common market the European Union began to legislate on it. The problematic relationship between intellectual property and European Law was caused by the absence of a specific policy²⁸¹. In this case everything was regulated by the general principle of subsidiarity and proportionality. These are the principles on the basis of which the European Union may create legal texts.

At the real beginning, the European Community had not competence of the subject at the stake. The competence on intellectual property remained among those of States members. Before the creation of a legal basis for the creation of immaterial title of property, the European Community used two legal bases which are the Article 114 TFUE and the Article 352 TFUE. The Article 115 TFUE (ex-article 95 TCE) was the legal basis for the harmonization activity among Members States Legal Orders of the

²⁷⁹ N. BOSCHEIRO *“Il principio della territorialità in materia di proprietà intellettuale: conflitti di leggi e giurisdizione”* in Quaderni AIDA, Milano, 2007; P. A. De MIGEUL ASENSIO *“Cross-Border Adjudication of Intellectual Property Rights and Competition between Jurisdictions”* in Quaderni AIDA, Milano, 2007.

²⁸⁰ G. CONTALDI *“Le fonti”* in AIDA 2007, Milano, G. MORGESE *“La tutela della proprietà intellettuale nell’Unione Europea”* in Bari Economia & Cultura- Trimestrale della Camera di Commercio, Industria, Artigianato e Agricoltura di Bari, Bari

²⁸¹ G. CONALTDI *“Le Fonti”*

European Union. The aim of this provision is to allow the European Union to adopt any kind of act available to create a common market. The use of this legal basis to legislate on intellectual property law is strictly related to the first idea of European Community on intellectual property as barriers against the creation of a real common market. In this sense, the European Community has used this legal basis in order to harmonize different national legislations instead of creating European titles which, on the basis of Article 114 was not allowed. The use of Article 114 as a legal basis of the harmonization of national rules is not always allowed. It has been affirmed by the European Court of Justice that Article 114 must be used to improve the conditions for the establishment and functioning of the internal market²⁸². This statement has been confirmed by the previous Case Law. The first case in this regards was the *British American Tobacco (Investments) and Imperial Tobacco* were affirmed that “*first of all, it is clear from paragraphs 83, 84 and 95 of the tobacco advertising judgment that the measures referred to in that provision are intended to improve the conditions for the establishment and functioning of the internal market and must genuinely have that object, actually contributing to the elimination of obstacles to the free movement of goods or to the freedom to provide services, or to the removal of distortions of competition*”²⁸³ and confirmed in the *United Kingdom v. Parliament And Council* were the Lord Judge affirmed “*It is also to be observed that, by using the words ‘measures for the approximation’ in Article 95 EC, the authors of the Treaty intended to confer on the Community legislature a discretion, depending on the general context and the specific circumstances of the matter to be harmonized, as regards the method of approximation most appropriate for achieving the desired result, in particular in fields with complex technical features*”²⁸⁴. The use of the Article 114 as a legal basis depends on the distinction between the improvement of the conditions enabling the functioning of the internal market and mere disparities which is not something that might be tackled on the basis of the Article 114. The risk of infringements of fundamental freedoms or distortion of competition might not be just a risk but it must be a real situation capable to directly affect the functioning of the internal market²⁸⁵. In this way we might look at *Germany v. Parliament and Council* where Lord Justice confirmed that “*While a mere finding of disparities between national rules is not sufficient to justify having recourse*

²⁸² European Court of Justice Case C-58/08 08/07/2010 “*Vodafone Ltd*” par. 32.

²⁸³ [2002] ECR I-11453

²⁸⁴ [2006] ECR I-3771

²⁸⁵ Case C-58/08 08/07/2010

to Article 95 EC, it is otherwise where there are differences between the laws, regulations or administrative provisions of the Member States which are such as to obstruct the fundamental freedoms and thus have a direct effect on the functioning of the internal market”²⁸⁶. Another reason for which the Article 114 might be used is the presence of distortions of competition as it has been affirmed by the Court in the Case *Germany v. Parliament and Council*, where it has been stated that “In examining the lawfulness of a directive adopted on the basis of Article 100a of the Treaty, the Court is required to verify whether the distortion of competition which the measure purports to eliminate is appreciable”²⁸⁷. So the Article 114 must be used only when we have to tackle down –obstacles to the internal market or an alteration of the competition among firms. In this way, the first approach of the European Community to intellectual property as obstacles to the establishment of an internal market fits perfectly with the motivation at the basis of the use of the Article 114. Another way is the use of the Article 352 TFUE, the enhance cooperation, to promote a cooperation among member states based on the willingness to take part in this system.

In the framework of the Treaty of Lisbon the Article 118 has been introduced and this provides the European Union with a specific legal basis for creating European intellectual property titles. Even if the European Court of Justice has accepted the use of the Article 114 to legislate into the intellectual property issue²⁸⁸. Once the approach of European Union to intellectual property changed, it was necessary to have a legal basis on the basis of which was capable to create new European Titles. These titles are capable to exist along with the national titles of protection. The Article 118 thus resolves the problems between the internal market and the immaterial national titles²⁸⁹. On the basis of the article 118 we have a European title of property. We are in front of a

²⁸⁶ Case C-380/03 [2006] ECR I-11573

²⁸⁷ Case C-376/98 [2000] ECR I-8419

²⁸⁸ Case 1/94 of 15/11/1994 I-5297 “It should be noted here that, at the level of internal legislation, the Community is competent, in the field of intellectual property, to harmonize national laws pursuant to Articles 100 and 100a and may use Article 235 as the basis for creating new rights superimposed on national rights, as it did in Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark (OJ 1994 L 11, p. 1). Those measures are subject to voting rules (unanimity in the case of Articles 100 and 235) or rules of procedure (consultation of the Parliament in the case of articles 100 and 235, the joint decision-making procedure in the case of Article 100a) which are different from those applicable under Article 113”

²⁸⁹ R. BARATTA “Art. 118” in “Commentario al Trattato sul Funzionamento dell’Unione Europea” a cura di A. Tizzano, Milano, 2014

title created by the European Union, instead of national titles whose circulation into the internal market is regulated by the European law²⁹⁰.

4.3 NATIONAL SOURCES AND FRAMEWORK.

In the Italian Legal systems the intellectual property protection is based on three different types of source. The first is the Civil Code codified in the 1942. The second source is the special legislation which was emanated before the codification of the Civil Code and the third is the European Regulation which is based on Directives and Regulations²⁹¹.

In 1942, the legislative power issued the Civil Code, which is now very different from the original one. Perhaps, this differentiation does not affect the section dedicated to the intellectual property. It was in 1942 that the legislator decided to dedicate few articles to protect the title of intellectual property known at that time. In the Italian Civil Code we can find protection for trademark (articles 2569- 2573), copyrights (articles 2575-2582), patents (articles 2584- 2590) and models (articles 2592-2594). The reason at the basis of this legislative decision was the existence of special law, fully dedicated to protect the most important titles of intellectual property at the time. These laws were the law n. 633/1941 on copyrights, the Royal Decree n. 1127/1939 on patents, the Royal Decree n. 1411/1940 on models, and the Royal Decree n. 929/1942 on trademarks. The special linkage between the above mentioned special laws and the Italian Civil Code is proven by the material reference made by the Italian Civil Code to special laws in the article 2574, 2583, 2591 and 2594²⁹². This kind of structure resisted until the existence of a new specific Code on intellectual property²⁹³. The Government, on the basis of the aim given to it by the Parliament, has reformed the entire structure of the intellectual property protection within this new specific code. In this Code, the entire issue of intellectual property protection has been coordinated among different sources of law: national, international and European.

²⁹⁰ See for example Reg. CE n.40/94 on the European Trade Mark emended by the Reg. CE n.207/2009, Reg. CE n.6/2009 on European Design and Models, Reg. CE n. 2100/94 on vegetables patent. In other case, the European Union has based the protection of new vegetables within the framework of the Common Agricultural Policy because of the absence of a proper legal base to protect intellectual property.

²⁹¹ A.VANZETTI- DI CATALDO “*Manuela di diritto industriale*” Milano, 2012, Authors affirms that the national regulation is almost the same of the European one, particularly in the sector of design.

²⁹² V. MANGINI A.N. TONI “*Manuale breve di diritto industriale*”, Padova, 2015, pag. 76

²⁹³ D.Lgs n. 30/2005

Today, the legal framework of intellectual property is perfectly described in the Italian Code of Intellectual Property which is almost similar to European Law for the issue that we are about to approach as a first class doctrine has affirmed.

4.4 THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: CONTRACTUAL CLAUSES

First of all, we have to clarify that we are pointing (OR focusing) our attention on shipbuilding agreement. These agreements are a particular type of contract that we have described in the previous part of this work. Nevertheless, we are going to recall some notions about them to help the readers to go further in this research. We have affirmed that in international market, shipbuilding is usually regulated by English law, in particular the Sale of Goods Act. It is not impossible to govern the agreement in other legal framework and the English one is the most important also for historical reason. Shipbuilding contracts are samples of templates which have been developed by association relevant for the business. The most important samples are the SAJ, the one developed by the AWES and the NEW.BUILD.CO of BIMCO. Of course, because they are just templates many firms have developed their own sample.

The AWES form contains a very common regulation of intellectual property. It is common because most of the other samples, also the ones developed by the firms, use the same kind of division and protection. The sample contains two articles, one on intellectual property and the other on property rights. In the first clause, it is affirmed a responsibility of the builder to keep the owner harmless from any kind of intellectual property rights. The clause, recognizing the relevance of intellectual property for the market and the intensive use of tools protected by immaterial rights into the shipbuilding, aims to protect the owners from builder choices. The expression “*keep the owner harmless*” is comprehensive of any expenses for litigation. This kind of guaranty²⁹⁴ does not cover the owner’s supply. The clause also aims to affirm that no transfer of property is regulated by the shipbuilding contracts, what means that any party will retain its rights over the intellectual property involved in the project. This is affirmed again in the second clause which aims more specifically to such kind of issue. In the clause, the parties have affirmed that the builder retains all the rights over

²⁹⁴ We do not use this word within its legal meaning.

specification, plans, working drawings and technical description. Signing the agreement the buyer undertakes not to disclose the above mentioned documents to any third party. The disclosure of this information is allowed just in case of fixing action.

It is a fact that in the most straightforward shipbuilding project the builder would use third parties intellectual properties. It is a normal procedure for the builder to procure the third party license to the owner²⁹⁵. The aim is to allow him to use his ship without any legal problems the builder might be responsible for on the basis of the first clause on intellectual property.

The NEW.BUILD.CO differs from the previous template because the owners and the builder guarantee each others. In this template each party provides an indemnity in case of intellectual property infringement. Another difference worth mentioning is contained in the SAJ form. Here it is affirmed that owners is guaranteed against patent infringements. As it has been noted by a first class academic opinion, it seems that this kind of protection does not cover any infringement other than the patent one. In this way there would be any kind of indemnity in case of copyright infringement, trademark infringement or design (registered or unregistered) infringement²⁹⁶.

Shipbuilding firms have, most of times, developed their own agreements and intellectual property clause. In the practice we have found six different types of clauses. We would like to point out that they are all inspired by the one commented by Simon Curtis in his leading manual. However, they all contain little difference that we are about to introduce you. The first type of protection is formed by two clauses. The first is named “*property*” and the second “*patents*”. The content of the first clause is the protection of general plans, specification and working drawings. In the clause is affirmed that “*the contractor retains all rights on the specification, plans and working drawings, technical description, calculations, test results and other data information and documents concerning the design and construction of the vessel and the purchaser undertakes therefore not to bring them to the knowledge of third parties, without the prior written consent of the contractor. Showing of these plans and drawings shall not unreasonably be denied by the contractor if it is necessary for carrying out repairs to the vessel*”. This is the basic clause protecting intellectual property. The aim is to bind the owner not to disclose any kind of information. The second clause regards patents as we have said. It affirms “*The contractor shall indemnify the purchaser against any*

²⁹⁵ *Ananged Attos campaign Naviero s.a. and other v. Ishikawajima* [1990] 1 Lloyd’s Rew.

²⁹⁶ S.CURTIS “*The law of shipbuilding*” pag. 255

infringement of patent rights or in connection with the construction at the contractor's yard of the vessel, but not such liability shall lie with the contractor with regard to components and/or equipment and/or design supplied by the purchaser". It aims to protect the purchaser against infringement caused by the builder. However, the owner is liable for its supplies. The second type of clause, is articulated in one article named "patents, trademarks copyrights". In this article the first comma is about Patents, trademarks and copyrights it is affirmed "Machinery and equipment of the vessel may bear the patent numbers, trademarks or trade names of the manufactures. The builder shall defend and hold harmless the owner from patent, trademark copyright or other intellectual property liability or claims of any nature or kind, including costs and expenses for, or on account of any intellectual property rights made or used in the performance of the contract and also including costs and expenses of litigation, if any". The principle here is almost the same so the builder is bound to leave the owners harmless in case of any kind of claims or liability for an intellectual property infringement. The second comma is about technical and design material ownership. It is affirmed that "The builder retains rights with respect to the specification, the drawings, technical description, calculations, test results and other data, information and documents concerning the construction of the vessel and the owner undertakes therefore not to disclose the same or divulge any information contained therein to any third parties without the prior consent of the builder, excepting where it is necessary for usual operation, repair, maintenance and sale of the vessel. Nothing contained herein shall be construed as transferring any patent or trademark rights or copyrights in equipment covered by the contract and all such rights including the design of the vessel are hereby expressly reserved to the true and lawful owners thereof. The builder's warranty hereunder does not extend to the owner's supplies. If the dispute is related to the owner's supplies the owner shall defend and hold harmless the builder from patent, trademark, copyrights or other intellectual property liability or claims of any nature or kind, including costs and expenses for or on account of any intellectual property rights made or used in the performance of the contract and also including costs and expenses of litigation, if any." The clause aims to protect also the builder from any kind of intellectual property infringement caused by the builder. Considering the part over the right on specific technical component, it seems that the parties are summarized in one clause what was done in two before. We have seen the third type of clause used just in the yacht sector. It is named "intellectual property" and it has six commas. The first

comma is that *“The builder acknowledges that all intellectual property in the design of the yacht and in the specification originating from the owner or from the designer or interior designer shall be and remain vested in the owner and/or the designer or the interior designer as appropriate. The owner agrees to provide or to procure promptly from each of the designer and the interior designer, free of charge, an irrevocable license to use the aforesaid designs in connection with the builder’s construction and sale of the yacht, including without limitation, a right on the part of the builder to continue the same in the event of any termination of this agreement pursuant to the provisions of sub-clause [...]. All intellectual property in the works and all equipment provided by the or others on its behalf shall remain vested in the party providing the same, provided that the builder shall grant to the owner free of charge and in perpetuity irrevocable licenses (or shall procure the grant of such licenses) to use the same in connection with the use and/or sale of the yacht, including, without limitation, a right on the part of the owner to continue to use the same in the event of any termination of this agreement pursuant to the provisions of paragraph 18.2.2 with regard to intellectual property each party shall keep strictly confidential any and all data of the other party and shall not disclose or use any such data or information other than that is herein provided”* In this comma the parties have made reference to the new figure of the designer of the interior design. This is because it is quite common that a owner of the yacht will provide the design of the exterior and interior himself. He aims to secure the property over that immaterial product however in case of default of the purchaser the builder is free to finish the yacht and sell it. Perhaps, nothing is said on the relationship between builder and design in case of purchaser’s default. In the second comma we have the usual undertakes of the builder to leave harmless the purchaser in case of intellectual property infringement. It is affirmed that *“Save in respect of design provided by the owner, the builder warrants that by the design, construction, ownership and operation of the yacht no patents or other intellectual property or industrial or design rights of third parties will be infringed. Should nonetheless a third party raise claims against the owner for infringement of such rights, the builder shall indemnify the owner against any action, claim, demand, costs, expenses and losses incurred by the owner as a result of such infringement, provided that the builder shall have the rights to conduct the defense in the name of the owner if appropriate of any such claims. The owner, at the builder’s expense will give the builder all assistance in the defense of such claims as the builder may reasonable request and the owner shall be entitled to control*

the defense of such claims and any settlement thereof shall be subject to the owner's prior written consent, such consent not to be unreasonably withheld." The third comma is about royalties and fee. In addition to the usual aim to keep harmless the builder, the owner accepts to pay any kind of fee or royalties to be paid for realization its project. The clause affirmed *"All royalties, license fees and other similar charges payable to third parties in account of the works and the equipment, save in respect of the owner's supplies, shall be for the account of the builder. The builder shall indemnify and hold harmless the owner from all costs, claims, damages and expenses (including legal fees in a full indemnity basis) incurred by or awarded against the owner as a result of or in connection with any claim brought against the owner fro infringement of any patent, copyrights, design right or other intellectual property arising out of the builder's construction of the yacht, save where such claim arises from designs provide by the owner. The builder shall have the right to defend such claims on behalf, and in the name, of the owner, but the owner shall be entitled to control the defense of such claims and any settlement thereof shall be subject to the owner's prior written consent, such consent not to be unreasonably withheld"*. The comma four of the article forbids the builder to use the information disclosed by the purchaser for other reason than the building project. It is affirmed that *"the builder shall not, and shall endeavor in achieving that its sub-contractors and suppliers shall not, use drawings, information or data relating to the yacht and/or its design for any purpose whatsoever other than in connection with the design and construction of the yacht. The builder further agrees nor without the prior written consent of the owner, such consent to be within the absolute discretion of the owner, to replicate the yacht in any material respect whether in the same or any other size, or to construct a sister-ship to the yacht to the extent that such sister-ship offends the intellectual property of the owner, the design, of the interior designer"*. The two last comma provides a survive sentence about intellectual property clause. They have written that the clause on intellectual property will survive till the end of the contract. The last comma allows the builder to use its intellectual property to do other yacht even if this property has been used in other project. The fourth type is a very simple one. Everything is contained in an article named *"intellectual property"* as well. The first comma affirms *"all intellectual property in the yacht design, including works, specification and drawings shall remain vested in the builder, provided that upon delivery the builder shall grant to the owner free of charge and in perpetuity irrevocable licenses to use the same in connection with use and/or sale of the yacht"*.

We can see that the clause is used for yacht to buy in a different situation from the previous. The situation regards the case in which the project is provided the builder. In the second clause *“the builder warrants that by the design, construction, ownership and operation of the yacht no patents or other intellectual property or industrial or design rights of third parties will be infringed. Should nonetheless a third party raise claims against the owner from infringement of such rights, the builder shall indemnify the owner against any action, claim, costs, expense and losses incurred by the owner as a result of such infringement, provided that the builder shall have the right to conduct the defense, in the name of the owner, if appropriate, of any such claims”*. The article ends with a survival clause which is the same as the previous article. The fifth type of clause goes back to the old division in two clauses. The first is about property rights and the second is about patents. The first clause comma 5 affirming that *“except as provided in section [...] all the rights in the specification, plans and working drawings, technical descriptions, calculation, test result and other data, information and documents concerning the design and construction of the vessel shall belong to builder before and after delivery of the vessel, except that builder recognizes the right of owner and its successors and assigns to use them for the repair, maintenance and commercial operation of the vessel following delivery”* the builder maintain the rights over a relevant part of the project that most of the times is made by him. At comma six it is affirmed that *“all rights in the architectural drawings, in the drawings for the funnel shapes, passengers cabins, wheel house, engine control room, public rooms and restaurants, store and baggage handling areas and in the plans and specification insofar as they relate to such areas of the vessel shall belong exclusively to owner both before and after delivery of the vessel, except that in the event of termination of this contract by builder under any provision of this contract entitling builder to do so, builder shall thereafter be entitled to use same but solely for the purpose of completing the construction of the vessel”*. In this clause is affirmed what is the property of the owner and will remains to have such qualification. The other article named patents reaffirms the same concept of the other clause saying that *“builder will defend and indemnify owner and its affiliates and hold them harmless from and against any claim, suit, or proceeding brought or asserted against owner or an affiliate alleging that any of the following constitutes an infringement of any patent, copyright, trademark, service mark or any other proprietary rights of a third party: (I) any process, apparatus or other item, or part thereof, furnished by builder or any of its subcontractor suppliers*

under this contract, (ii) any use of any such process, apparatus or item that was in the reasonable contemplation of the parties at the time furnished; or (iii) any methods, processes or acts employed by builder in connection with the performance of its obligations hereunder. Owner shall promptly notify builder as to any such claim, suit or proceeding. Builder will pay all damages and costs awarded therein against and its affiliates”. The second comma issues the expenses to be sustained in order to do a non infringement and it is affirmed “*in the event any modification is required to be made to the vessel in order to make it non-infringing, builder will promptly at its own expense: (I) procure for owner the right to continue using the infringing process, apparatus or item, or (ii) replace same with right a non-infringing process, apparatus or item satisfactory to owner, (iii) modify the process apparatus or item in a way reasonably satisfactory to owner, so that it becomes non-infringing”.* The article ends with the usual survival comma stating that the builder obligation shall survive the termination of the contract. The sixth type of article does not have substantial differentiation comparing with other article. It is based on two clauses, one aiming to keep harmless the purchaser for any kind of infringement, the other aiming to affirm the property of the general working plans and design concept to the builder before the delivery. After the delivery both parties might use these items with a limitation for the builder to use those architecture features characterizing the purchaser. The last type does not have any kind of innovative feature but it has just a different wording.

CHAPTER V

THE PUBLIC PROTECTION OF DESIGN

5.1 THE EUROPEAN TITLES OF PROTECTION EU REGULATION 6/2002. 5.2 NATIONAL SYSTEM OF PROTECTION. 5.3 COPYRIGHT LAW AND UNFAIR COMPETITION 5.4 PRIVATE INTERNATIONAL LAW: THE LAW APPLICABLE TO CONTRACTUAL OR NON CONTRACTUAL OBLIGATION.

5.1 THE EUROPEAN TITLES OF PROTECTION: EU REGULATION 6/2002.

Historically, the legislation of European Member States has differed totally in regard of design protection. The European Community has encountered more difficulties in harmonizing this protection than, for example trademark. First step was the Directive 98/81/CE. Its aim to create a common framework for design among European Member States has been probably overestimated. The Directive aimed to harmonized the standard and condition of protection. However, there was not a word on registration process which was affected by the Directive. So, even if the Directive has inspired the modifications to the previous IP regulation i, it was not the right instrument to pursuit a creation of a real common market. The Regulation n. 6/2002 has represented the real step further into the IP systems of European member States. It introduced new form of protection, like for example the unregistered design, which was unknown in Italy. Today, system of protection looks very similar²⁹⁷. This consideration is based on a fact that the Directive has harmonized the national systems and has inspired the Regulation. Thus, the European regulation of the Common Design is almost identical to national design title and protection. There are no real differences among legal institute and definition.

As we have said, the Regulation 6/2002 has created a unified title of protection for design. The aim of this regulation was to create a unified regime for the concession of a patent giving a unified protection among member states²⁹⁸. Because the Regulation was issued before the Treaty of Lisbon, the legal base is the article 308 of the European Community Treaty. The absence of a legislative competence on intellectual property

²⁹⁷ A. VANZETTI V. DI CATALDO *“Manuale di diritto industriale”*

²⁹⁸ Consideration 1 of Reg. 6/2002

has forced the European legislator to use the principle of subsidiarity²⁹⁹ and need to guarantee the freedom of movement³⁰⁰. This choice was justified by the topic explained in the previous chapter.

The requirements for a design protection are: visibility³⁰¹, novelty³⁰², individual character³⁰³, no disclosure³⁰⁴, design is not dictated by technical function or interconnection³⁰⁵ and public morality³⁰⁶. All of these requirements must be hold by the product or a part of the product for which the protection is required.

First of all, we must understand what the object of title is. The design aims to protect “*the appearance of the whole or a part of the product*”³⁰⁷. The regulation, giving a great importance to visibility make a point distinguishing between product, defined by Article 3 letter b³⁰⁸, and complex product, defined by Article 3 letter c³⁰⁹. The definition, contained in letter b, opens the community design to both the industrial and handcraft market. Different part of an item might be protected by the Community Design. Perhaps, what is really important is that this part is visible during the normal use. This requirement is even more important in the case of complex products which are those composed by multiple elements that might be re-assembly and disassembly. The definition of a product and the definition of what it is protected is at the base of any kind of protection in the Community Design systems. In case decided by the Third Commission of OHIM between SAGEM s.r.l. v. F.lli Tanzi S.p.A. the Commission has affirmed that shapes of a product is a part of product for which a protection might be claimed³¹⁰. An important thing in regard to the qualification of the product is not to

²⁹⁹ Consideration 6 of Reg. 6/2002

³⁰⁰ Consideration 4 of Reg. 6/2002

³⁰¹ Art. 4

³⁰² Art. 5

³⁰³ Art. 6

³⁰⁴ Art. 7

³⁰⁵ Art. 8

³⁰⁶ Art. 9

³⁰⁷ Article 3 “*‘design’ means the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colors, shape, texture and/or materials of the product itself and/or its ornamentation*”

³⁰⁸ Article 3 letter b “*‘product’ means any industrial or handicraft item, including inter alia parts intended to be assembled into a complex product, packaging, get-up, graphic symbols and typo- graphic typefaces, but excluding computer programs;*”

³⁰⁹ Article 3 letter c “*‘complex product’ means a product which is composed of multiple components which can be replaced permitting disassembly and re-assembly of the product.*”

³¹⁰ 19 January 2012 Third Commission Sagem S.r.l. v. F.lli Tanzi S.p.A. “*La richiedente asserisce che la forma rettangolare di un prodotto non può costituire un aspetto del prodotto perché trattasi di una forma geometrica di base che appartiene al patrimonio culturale comune. Tale causa di nullità è manifestatamente infondata. La forma geometrica di un prodotto è una caratteristica apprezzabile visivamente e ciò basta a far ricadere il modello comunitario in questione nell’ambito dell’art. 3*”

make confusion between a product and its community design. It might happen that a firm does not make clear the difference between the product itself and the shape, lines or packing that it wants to be protected by the Community design. In other words, the entire product might be the design and the party might ask a protection limited to the part of the product creating a feeling of novelty among the market. The need for distinction has been stated clearly by the sixth chamber of the Tribunal of European Union that called to express its legal opinion on an appeal proposed by Merlin Handelsgesellschaft mbH against the OHMI has affirmed *“Plus en détail les requérants reprochent à la chambre de recours d’avoir confondu la notion de dessin ou ce même règlement, au motif qu’elle a considéré que le dessin ou modèle contesté était constitué par le jeu représenté au point 2 ci-dessus dans son ensemble, à savoir une boîte et des pièces de construction en bois avec des éléments décoratifs en verre, et pas seulement par une partie de ce jeu, à savoir les éléments décoratifs enchâssés dans la surface des dites pièces de construction”*³¹¹. In this case, the party claims for a design protection of the whole product but the Tribunal affirmed that he was wrong. The design was to be limited to part of the decoration and not to the whole bottle. Another important qualification regards the complexity of product because if the product is a complex one, the protection is limited to the visible part. This is the case of a cover applicable to a skirting board for covering cables. The case was the number T-39/13, the OHMI contested that the cover was a part of a complex product. The complex product was the skirt board with this cover. OHIM commission supported the idea that even if the cover was made in a way allowing the passage and the covering of any skirt board, the qualification as a complex product limits the attention to the surface of the cover which does not have any requirements to be protected as design. In this case, the Tribunal confirmed the decision of the OHIM commission and it rejected the claims of the private party³¹².

Article 4, named requirements of protection, provides the reader with a list of requirements that needs to be fulfilled by the party. Perhaps, after having affirmed that novelty and individual character are two requirements for Community patent protection it affirms the requirement of visibility. This implies that a part or trait of a complex product need to be visible in order to be patented as registered Community patent or

³¹¹ Merlin Handelsgesellschaft mbH v. OHMI Decision of the Tribunal 25 October 2013

³¹² Cezar Przedsiębiorstwo Produkcyjne Dariusz Bogdan Niewinski v. OHIM Decision of the Tribunal 3 October 2014

protected with the unregistered Community patent. This requirement is applicable only to complex products. It has been affirmed by the European Court of Justice in the Case T-41/14 when it has been appealed for a case regarding an “advertising article”³¹³. The court questioned on the application of article 4 affirming *“Furthermore, it should be pointed out that Article 4(2) of Regulation No 6/2002 lays down a particular rule applying specifically to a design applied to or incorporated in a product which constitutes a component part of a rule complex product within the meaning of Article 3(c) of Regulation No. 6/2002. In the contested decision, the Board of Appeal did not find that the contested design constituted a complex product or that the handles constituted a component part of the product. Indeed, the applicant itself states, in the application, that the handles incorporated in the contested design do not constitute component parts of a complex product. The applicant has therefore no basis for claiming that a part of the handles in the contested design does not remain visible during normal use of a complex product within the meaning of Article 4 of Regulation 6/2002.”*³¹⁴ The Regulation on Community design limits the rule of visibility to visible elements of the complex product. The finding of visible elements is an important part of the application process because these are the parts that must be novel and individual. This principle has been affirmed with an important list of sentences but it has been affirmed clearly by the European Court of Justice in May 2015. The Court affirmed that the comparison, aiming to find the novelty and the individual character of a design, must come after the identification of the visible parties and then they have to be compared. A process comparing the entire product or the entire complex product, even worse, is totally wrong³¹⁵. To conclude, the Regulation no. 6/2002 describes a process which is based upon the concept of products and complex products, described by Article 3, and that the protection of complex product requires the visibility of the trait or shape or item to be protected. In the case of complex product, the evaluation on novelty and individual character must be limited to the visible party. This is because the aim of

³¹³ Locarno Classification

³¹⁴ Argo Development and Manufacturing Ltd v. OHIM European Court of Justice 28 January 2015 ECLI: EU:T:2015:53

³¹⁵ Group Nivelles v. OHIM European Court of Justice 13 May 2015 ECLI: EU:T:2015:281 and also Aic S.A. v. OHIM European Court of Justice 20 January 2015 ECLI: EU:T:2015:32 *“a Community design applied to a product which constitutes a component part of a complex product is only to be considered to be new and have individual character in so far as, first, the component part, once it has been incorporated into the complex product, remains visible during normal use of that product and, secondly, those visible features of the component part fulfill in themselves the requirements as to novelty and individual character”*. See also Shenzen Taiden Industrial Co. Ltd. v. OHIM T-153/08 22 June 2010, Kwang Yang Motor Co. Ltd v. OHIM T-10/08 DEP, Sphere Time v. OHIM ECLI: EU:T:2011:269

the design protection is to preserve the feeling generated to the consumer by a visible feature of the product not affected by a functional need.

In June of this year, the OHIM made a decision on the design of snacks. From a practical point of view the decision is really important. This is because the office has recalled the entire jurisprudence of the European Court of Justice on patent requirements. As we have said, the shape must be new. The article 5 affirms that “*a design shall be considered to be new if no identical design has been made available to the public: a) in case of an unregistered Community Design, before the date on which the design for which protection is claimed has first been made available to the public; b) in the case of a registered Community design, before the date of filing the application for registration of the design for which protection is claimed, or, if priority is claimed, the date of priority*”. This kind of evaluation should be limited to protectable features of the product, so in case of complex product the exam should be conducted in regard to visible parts. However, the exam should not be an analytic list of similarities or differences and this has been affirmed into various cases. In another case, the Court has affirmed that “*Il importe, ensuite, de souligner que la comparaison des impressions globales produits par les dessins ou modèles doit être synthétique et ne peut se borner à la comparaison analytique d’une énumération de similitudes et de différences*³¹⁶”. It is, even more important, the following passage where the Court affirmed that “*Cette comparaison doit porter uniquement sur les éléments effectivement protégés, sans tenir compte des caractéristiques exclues de la protection. Ladite comparaison doit porter sur les dessins ou modèles tels qu’enregistrés, sans qu’il puisse être exigé du demandeur en nullité une représentation graphique du dessin ou modèle invoqué, comparable à la représentation figurant dans la demande d’enregistrement du dessin ou modèle contesté*”³¹⁷. So, the exam must be taken into account just for the part of the product that might be protected. With regards to Article 3 letter a) these are “*lines, contours, colours, shape, texture, and/or materials of the products and/or its ornamentation*”. Article 5 provides an important tool for the examination of the trait and elements of any products. Second paragraph of the Article affirms “*Design shall be deemed to be identical if their features differ only in immaterial details*”. The Court in *Group Nivelles v. OHIM* affirmed that design is identical when its features differs only

³¹⁶ Danuta Budziewsk v. OHIM Court of Justice 7 November 2013 ECLI:EU:T:2013:584

³¹⁷ Danuta Budziewsk v. OHIM Court of Justice 7 November 2013 ECLI:EU:T:2013:584 see also *Shenzen Taiden v. Bosch Security Systems* T-153/08 22 June 2010, *Baena Grupo v. Neuman et Gldeano del Sel* T-513/09 16 December 2010.

with regards to irrelevant details³¹⁸. Aiming to protect the feelings created by products to consumer, irrelevant features are not detectable and they do not make any difference with other design among the consumer³¹⁹. This represents a consolidated approach started with the case *Erick Kastenholtz v. OHMI*³²⁰ where the fact was that two products must differ totally. Even if the difference is small, they are not irrelevant and they have to make consumers understand the difference between the older products and the newer ones.

The other requirement is the individual character, Article 6. This is described as a differing overall impression produced on the informed user. Article 6 introduces two concepts. The first is the “overall impression” and the second is the *informed user*”. The overall impression is the one produced by the design on the informed user. There isn’t too much to say about an overall impression because everything might be explained describing the idea of informed user the overall impression is linked to. The impression we are making a reference to, is the feeling created by the design on the user. This user is a particular one. The difficulties are related to the fact that the concept of informed user appears for the first time in the intellectual property regulation and it differs from other types of definition such as consumer or user or professional. The informed user is a *fixio iuris*³²¹, he is a facade. He does not exist in reality. The informed user is “neither a manufacturer nor a seller of the product in which the design at issue are intended to be incorporated or to which they are intended to be applied”³²². He is someone in between the expert of the field and a user without any kind of knowledge in the specific sector³²³. The definition of informed user means that the user has at least an interest in the series of products³²⁴. User means that he is not a designer or architect or an expert in the field in which the product is normally used, it is someone really interested in the type of product. This interest provide him with a higher level

³¹⁸ *Group Nivelles v. OHMI* Court of Justice 13 May 2015 ECLI:EU:T:2015:281

³¹⁹ *Group Nivelles v. OHMI* Court of Justice 13 May 2015 ECLI:EU:T:2015:281

³²⁰ 6 June 2013 T-68/11 “*Emerge dall’articolo 5, paragrafo 2, del regolamento n. 6/2002 che due disegni o modelli si reputano identici quando le loro caratteristiche differiscono soltanto per dettagli irrilevanti, cioè dettagli che non siano immediatamente percettibili e non producano quindi differenze, nemmeno minime, tra i citati disegni o modelli. A contrario, al fine di valutare la novità di un disegno o modello, occorre accertare l’esistenza di differenze tra i disegni o modelli in conflitto che, anche se minime, non sono irrilevanti*”

³²¹ *Leng-d’or S.A. v. MAFIN S.r.l.* Decision of OHMI 27 June 2017

³²² *Grupo Promer Mon Graphic SA v. OHIM* European Court of Justice 18 March 2010 Case t-9/07

³²³ *Leng-d’or S.A. v. MAFIN S.r.l.* Decision of OHMI 27 June 2017 see also *El Hogar Perfecto del Siglo XXI v. OHMI* T-337/12 EU:T:2013:601, *Motion S.p.A. v. Ciar S.p.A.* OHMI 19 August 2016

³²⁴ *Merlin Handelsgesellschaft mbH v. OHIM* T-23/10 “5 October 2013

attention for evaluating difference among products of the same type³²⁵. The jurisprudence has affirmed that the quality of user implies the use of the product or of the similar product. He knows the market and he can understand the differences between a new model and previous one³²⁶. So, we can affirm that the informed user is the user of the product or the user of the complex product in which the design remains visible³²⁷. In this framework, the Court has identified the informed user with a buyer of watches or heaters.

The second paragraph of Article 6 introduces the freedom of the designer as a term upon which the individual character must be evaluated. The idea does not need further discussion. The Court has affirmed that *“the greater the designer’s freedom in developing the challenged design, the less likely it is that minor differences between the design at issue will be sufficient to produce a different overall impression on an informed user”*³²⁸. In this framework, if the design has a high degree of freedom in developing a design a product without significant differences give the same overall impression. It cannot be patented as a design or protected as unregistered design. This is the concept of a crowded market sector³²⁹. The concept of overall impression is a dynamic concept. There is no definition. Perhaps, there is a same tool that must be used to understand whether a certain degree of novelty is enough to create an individual overall impression. The first tool is the informed user as it has been defined by the above quoted jurisprudence. The other instrument is the market and the number of same products in the market field. In this way, the more the sector is crowded the less degree of innovation is required from the designer. The conclusion is that in a crowded market even a low degree of innovation gives the product novelty and individual character. On the other side, in a not crowded market the protection of the design is granted only with high degree of innovation because in such kind of market an individual overall can be made only with a great amount of innovation³³⁰. The freedom of design might be restricted by other things that the crowd into the market. The first is described at Article 8. The situation refers to a design dictated by technical function or interconnections. In this case the design cannot be patented or protected. Article 9 is another restriction to

³²⁵ *Merlin Handelsgesellschaft mbH v. OHIM* T-23/10 “5 October 2013

³²⁶ *Group Nivelles v. OHMI* T-15/13 13 May 2015

³²⁷ *Group Nivelles v. OHMI* T-15/13 13 May 2015

³²⁸ *Kwang Yang Motor Co. Ltd v. OHIM* T-10/08

³²⁹ *Antrax It S.r.L. v. OHIM* T-828/14 and T-829/14 16 February 2017

³³⁰ *Tubes Radiatori v. OHIM* T-315/12 12 March 2014, *Roca Sanitario v. OHIM* T-334/14 29 October 2015

the freedom of designer. The article affirms that “*a community design shall not subsist in a design which is contrary to public or to accepted principles of morality*”. The Court has gone even further affirming that “*the designer’s freedom is established by the constraints of the features imposed by the technical function (Article 8) of the product or an element thereof, or by statutory requirements applicable to the product. Those constraints result in a standardisation of certain features, which will thus be common to the design applied to the product concerned*”³³¹. So both the crowd in the sector and the statutory provision must be taken into consideration if we want to protect a product under the Regulation n. 6/2002.

Parties have asked to consider a design trend as an element restricting the degree of freedom of the design. However, this argument has been rejected by the Court. The Court considered the design trend “*relevant, at most, in relation to the aesthetic perception of the design concerned and can therefore, possibly, have an influence on the commercial success of the product*”³³². The Court has refused to allow a general design trend to be regarded as a factor restricting the designer’s freedom because it is that freedom that allows him to discover new trends or new shapes or to innovate the context of an existing trend³³³. The Court has considered the way to use a product in a sector in which the designer might express his freedom so that if a product has a new way to be used and it generates an individual overall impression that trait of the object might be protected as a Community Design³³⁴.

The right conferred by the community design, Article 19, differs in the case of registered design and unregistered design. In the first case, a Community design shall confer the exclusive right to use the design and to prevent third party to use the same design. In the second case, an unregistered Community design shall confer the right to prevent a third part to make, offer, put on the market, import export or use the product. In the case of un registered Community design the request of protection shall not be satisfied if the contested product is the result of an independent research or work of the creator. This right cannot be exercised against act done privately or without commercial purposes, acts done for experimental purposes or act of reproduction for the purposes of making citations or teaching. Another important limitation is described in paragraph 2. where it is written that “*In addition, the rights conferred by a Community design shall*

³³¹ *Grupo Promer Mon Graphic SA v. OHIM* T-9/07

³³² *Shenzhen Taiden Industrial Co. Ltd v. OHIM* T-135/08

³³³ *Antrax It S.r.L. v. OHIM* T-83/11 and T-84/11 13 November 2012

³³⁴ *Shenzhen Taiden Industrial Co. Ltd v. OHIM* T-135/08

not be exercised in respect of: a) the equipment on ships and aircraft registered in a third country when these temporarily enter the territory of the Community, b) the importation in the Community of spare parts and accessories for the purpose of repairing such craft, c) the execution of repairs on such craft". It might appear that the Regulation is not applicable to ship registered in a third country, but it might not be like that. First of all, this clause is similar to Article 5ter of the Paris Convention on patent protection. The aims of these clauses are to protect intellectual property preserving international trade and commerce in general. Secondly, in this specific case the aim of the European legislator was to protect the ship as an object without creating any kind of tension aiming to protect other component of ship. The idea is based on the fact that the ship is registered on third country. In this way, the public power does not have any kind of civil jurisdiction on objects or equipments contained in the ship, thus the protection must be limited to the visible part of the ship. This article produces some confusion about the word used. In the Italian translation of the Regulation, words "*arredi and installazioni*" are used to identify the object immune from Community design. In French, English and Spanish translation is used the word equipment. The correct view is to consider the word equipment as indicating any visible things made along to an industrial process which might be protected with an unregistered or registered Community design. This immunity is limited on time. The article affirms "*temporarily*" as well as the Paris Convention where the same word is used. The meaning of the word has been explained by the U.S. Supreme Court in the case *National Sterr car Ltd v. Canadian pacific*, see above, where the U.S. Court applying the Article 5ter of the Paris Convention defined the word temporally as "*for a limited time*" or "*transient*". The U.K. jurisprudence allows use the same definition. In the case *Stena Rederi A.B. v. Irish Ferries Ltd*, see above, the Court has used the same meaning given by U.S. Judges. Thus, it is clear that the prohibition to exercise a Community Design against a ship registered in a third Country does not exist anymore when the ship is in the national sea of a Member State Countries for longer than a limited period of time.

The Regulation recognises to third party the right to use the design if the third person can establish that prior to the use of the designer or prior to registration he has used the design in good faith, that is contained into Article 21.

To conclude, the Community design is a European title of intellectual property which does not preclude other types of national protection. It is based on a novelty of a trait, on an individual character evaluated by an informed user which is a person that

commonly uses the product. In case of complex product, the design must be visible and, in general, it is not based on functional or statutory provision.

5.2 NATIONAL SYSTEM OF PROTECTION

The importance of the design is unquestionable. For any Italian firms it remains one of the most important titles of immaterial property. The Italian laws on design have been organized in the Italian Intellectual Property Code³³⁵ as well as the other titles of protection. The design is issued in the section III, art. 31-44. The Italian law on design has been inspired by the 98/71/CE directive which aims to harmonize the legislations of European member States on design before the issue of the Regulation 6/2002 on the European design. The actual national legislation is very similar to the European legislation³³⁶ because the Directive inspired the European Regulation as well. Today, it is hard to find real differences between the Italian Code and the European Design Regulation. The aim of the national design is to protect an innovate shape of a known item. It protects innovation as well as the patent. However, if in the patent system we protect a real discovery, the design is used to protect the visible part of the innovation its shape. The new legal institute has replaced the past “*patent for shape or model*”, and it has also reorganized the relationship between the copyright and design protection. Definitions used by the Italian code are very similar to the European Regulation 6/2002. The design in article 31 I.P.C. (Intellectual Property Code) aims to protect the shape of a product with the exclusion of any shape forced by the use of the item. The quoted article refers to shapes, colors, lines and surface. The Italian doctrine believes that article contains an open list³³⁷. The Italian Code excludes those shapes or aesthetic items based on functional needs as well as the European Regulation 6/2002. In the actual Italian legislation is no more needed that shape protected by law have a particular value. However, it is requested that these shapes or lines are not based exclusively on functional requirement.

³³⁵ Decreto Legislativo 10 febbraio 2005, n. 30

³³⁶ A. VANZETTI V. DI CATALDO “*Manuale di diritto industriale*”

³³⁷ A. FITTANTE “*Brand, Industrial Design e Made in Italy*”, Milano, 2015, pag. 109 and V. SCORDAMAGLIA “*La nozione di disegno e modello ed i requisiti per la sua tutela nelle proposte di regolamentazione della materia*” in Riv. Dir. Ind. 1995/1 and V. DE SANTIS “*I modelli e disegni ornamentali dopo la Direttiva 98/71/CE*” in AIDA, 1999. It is worth to know that a software in Italy is protected by copyright and its product might be protect by hte design.

The Italian Code contains a definition of product which is almost the same of the European one.

The new legislation does not link the protection to a particular value of the item protected. It means that the design does not need to be new in the sense of a patent, perhaps it must give a new feeling on the consumer. The new national law recognizes to him a great importance as well as the European Regulation. The national Court has affirmed that the national approach has changed. With the new definition inspired by the Directive, the approach is more market oriented. In this sense, new national regulation does not aim to protect tool with a high standard of value, on the contrary, it aims to protect tools appreciated by the consumers which, as well as the European Regulation, are informed³³⁸.

The requirements for a registration are the novelty and the individuality. This idea of novelty differs from the one contained in the section focused on patent regulation. This one is not an absolute concept but it refers to the diversity between new shapes or figures and the old shape and figures in the same market field. If in the absolute novelty we compare the new item with the entire *corpus* of patents, for example, in this case we do our comparison remaining in our market field. The European legislative power has introduced this idea³³⁹. The Italian doctrine does not have a univocal approach to the definition of novelty, however the main doctrine considers it as relative novelty³⁴⁰. In order to be protected within the instrument of national design is required a shape to be new. This feature implies that the new tool does not differ from the previous only for irrelevant details. The irrelevant differences are those that do not give to the consumer a different feeling. This kind of test must be done on the concrete case. It must be evaluated case by case whether the trait is irrelevant or not. The other requirement is the individuality which is a novelty in comparison with the previous national law but it is not thinking to European Regulation. Individuality means that the shape protection of which is required inspires informed consumer a general impression differing from other

³³⁸ See in this regard Trib. Roma. Ord. 25 July 2005, in *Sez. Spec. P.I.*, 2005, I, Trib. Napoli., Ord. 2 May 2005, in *Sez. Spec. P.I.* 2005, I, Trib. Torino Ord. 28 January 2005 *Sez. Spec. P.I.* 2005, I, Trib. Napoli, ord. 24 June 2004 *Giur. Ann. Dir. Ind.* 2006, 4951, 191 and P. SENA “*La diversa funzione e i diversi modelli di tutela della forma del prodotto*” in Riv. Dir. Ind. I/2002, D. SARTI “*Marchi di forma ed imitazione servile di fronte alla disciplina europea del design*”, AA.VV “*Segni e forme distintive. La nuova disciplina*” Milano, 2001.

³³⁹ A. FITTANTE “*La tutela giuridica dell’Industrial design*”

³⁴⁰ Cass. 7 July 1990, 7077 in *Giur. it.*, 1991, Cass. 28 October 1983, n. 6382 in *Giust.Civ. Mass.* 1983, Trib. Roma 25 July 2005, V. DI CATALDO “*Le invenzione e i modelli*” Milano, 1993.

or previous tool of the same market field or sector³⁴¹. In this way the evaluation, instead of being limited to an analytic approach, considers all the important features of tools together. The aim of this process is to verify whether or not the new shape gives a new felling to the informed consumer³⁴². The process might end with different outcomes any time it is conducted. The informed consumer has an important role and, we can't say too much on him. It is almost the same figure in the European Regulation. He is not a simple consumer but he is not a professional in the sector. He is well-informed about the products, he knows many differences and almost every kind of similar products in the market and on the basis of this know-how he is able to appreciate the novelty and individual feature. He is not an expert as he is for the patent. He is not required to appreciate any little absolute novelty of the product. He must analyze the product as a complete object and must give his advice on this basis. The disclosure has an important role also in the national law. There are two types of disclosure and might be destructive or not. In the first case, we have previous registration, exposition and marketing promotion. It is not destructive the disclosure that is a normal practice for the market. For example, the exposition made by the design to an hypothetical buyer or the disclosures made to international trade fair governed by the Convention on international trade show signed in Paris 22 November 1928.

This description of actual national protection of design leads to some conclusion. First of all, the impression of similarity between national and European regulation must be shared. There are no real differences between these two types of titles. In this regard, we might affirm that the protection of design is almost identical in all Europe. This feature of the European public regulation of design protection is a support to economic development in particular for Italian firms.

5.3 NATIONAL COPYRIGHT AND UNFAIR COMPETITION.

There have been some national systems where the industrial design is protectable with the law regarding the copyright. After the implementation in Italy of the Directive

³⁴¹ P. AUTERI *“La futura disciplina europea del design fra tutela del diritto di autore e repressione della concorrenza sleale”* Contratto impresa Europa, 1998; G. DALLE VEDOVE *“Dal modello ornamentale all’industrial design”* in Dir. Aut., 2001, M. BOSSHARD *“Divieto di imitazione servile confusoria , marchio di forma e nuova privativa sul design”*, in studi in onore di Adriano Vanzetti, V. DI CATALDO *“Dai vecchi disegni e modelli ornamentali ai nuovi disegni e modelli. I requisiti di proteggibilità secondo il nuovo regime”* in Eur. Dir. Priv. 2002.

³⁴² Trib. Roma, 14 May 2004 in Sez. Spec. P.I., 2004, II-III, Trib. Roma, 29 July 2004 in Sez. Spec. P.I. 2004.

98/71/CE which introduced the cumulative principle regarding the protection of industrial design³⁴³. Before the implementation of the Directive 98/71/CE, in Italy the copyright protection was excluded to product for industrial production. The criteria to protect such type of product were the possibility to separate the product from an artistic value. There were two academic approaches to the question. The first was the one forbidding someone to protect the product of industry with the copyright. This approach was based on the assumption that a product made by an industrial process does not have any kind of artistic value to be protected. The second approach stated has affirmed that the type of production for which the product is thought does not exclude an artistic value. These two approaches were summarized by the Court of Cassazione that affirmed the principle of separability of the product from its artistic value. Based on this principle we might protect the industrial design with both the patent and the copyright. A mass production process or an industrial process does not exclude *tout court* the protection with the copyright³⁴⁴. The separability was evaluated without reference to the aim of the product³⁴⁵. The Directive introduced a new approach to the issue. It is now possible to protect a design with the copyright law as in many other European States³⁴⁶. There are two requirements to ask protection of industrial design under copyrights law which are creative feature³⁴⁷ and artistic value³⁴⁸. The creative feature sounds overloaded in a matter such as copyright law³⁴⁹. The artistic value is more interesting to analyze. The definition of the expression artistic value has been a challenge for the Italian jurisprudence. There have been two decrees on this issue. The first, the local Court of Monza, was asked to express its legal opinion on a case involving some furniture designed by Le Corbusier, affirmed that a likable feature or shape does not imply a copyright protection and it is necessary that the creative value is not linked to the function of the product³⁵⁰. The second decree affirmed that the possibility to make the product using an industrial method of production without particular know-how or information exclude its artistic value³⁵¹. The Local Court of Bari has agreed on this

³⁴³ A. SIROTTI GAUDENZI “*Il nuovo diritto d’autore*” Rimini, 2011

³⁴⁴ A. FITTANTE “*Brand, industrial design e Made in Italy: la tutela giuridica*”

³⁴⁵ Corte di Cassazione 7077/1990

³⁴⁶ T. COOK “*The cumulative protection of design in the European Union and the Role in such protection of Copyright*” Journal of Intellectual Property Rights Vol 18, January 2013

³⁴⁷ Carattere creativo

³⁴⁸ Valore artistico

³⁴⁹ A. FITTANTE “*Brand, industrial design e Made in Italy: la tutela giuridica*”

³⁵⁰ Tribunale di Monza 23 April 2002 *Cassina S.p.A. v. A Studio S.r.l. and others*

³⁵¹ Tribunale di Monza 16 July 2002 *Cassina S.p.A. v. Galliani Host Arredamenti S.r.l. and A Studio S.r.l.*

decision affirming that a batch production or flow production excludes a copyright protection³⁵². This approach started to change since 2005 thanks to some decree of the Local Court of Bologna. In this decree the Court has affirmed that the artistic value is an additional feature of the product which is represented by its value in the market of artistic pieces³⁵³. This has been affirmed by the same local Court in a decision. The Court has affirmed that a product might be protected within the copyright law if the product is considered to have a recognized artistic value³⁵⁴. The Local Court of Venice has affirmed that the product must have a value as an artist piece and its exposition in some museum or gallery is not enough to prove this value³⁵⁵. This was confirmed by the local Court of Florence in the decree number 31.03/04.04 of 2011 where is affirmed that the mass production does not exclude a positive evaluation of the artistic value of the product. The Local Courts have not given a definition or method to prove an artistic value of the product. The Court have excluded that it might be dependent upon some kind of artistic prize or some type of exposition. This was the previous approach to the matter that started to change since the decree of the Local Court in Milan dated 22 February 2010 where the Court affirmed that a product has an artistic value if its shape, color or trait is appreciated more than its technical function. This approach has definitively changed. A recent decision of the Local Court of Milan- Business Section- has affirmed that evaluation of any artistic value must be based on objective artistic standards³⁵⁶. These standards have been affirmed by the Court of Cassazione some months ago in March 2017 in a case from Soc. Thun v. Soc. Egan. The first section of the Supreme Court has affirmed that there are six standards, upon which the artistic value must be evaluated. The first, a recognition of the artistic value coming from cultural thin-thank or institution. The second is the exhibition in a museum. The third regards articles about the product with no commercial purposes. The fourth is winning some prizes. The fifth, the market price of the product is more linked to its artistic value than its function. The sixth, the product has been created by a famous artist³⁵⁷. In the same decision, the Court has affirmed that the artistic value of a product is not excluded

³⁵² Tribunale di Bari 27 October 2003

³⁵³ Tribunale di Bologna 8 September 2005

³⁵⁴ Tribunale di Bologna 10 November 2010

³⁵⁵ Tribunale di Venezia 10 December 2010

³⁵⁶ Tribunale di Milano Sez. spec. Impresa 15 June 2017

³⁵⁷ Suprema Corte di Cassazione *Soc. Thun v. Soc. Egan* 23 March 2017 n. 7477

by its method of production (flow or batch production)³⁵⁸. It can be affirmed by the factors pointed out by the Supreme Court.

To conclude, the harmonization of the copyright law has changed the object of its protection also in Italy where we have moved from a situation in which was not possible to protect industrial design using the copyright law to a framework where this is possible. Of course, all differences among European states have not disappeared yet³⁵⁹. This way to protect industrial design must be limited due to the great and strong protection given by the legal order to pieces of art. The duration of protection is the longest compared with any other type of protection. This limitation has been expressed with the term artistic value because not every piece of industrial design can be protected with copyright law but just those having an artistic value. Over the definition of this value there had been a dispute to which some recent decision of Local Courts and the Supreme Court of Cassazione put an end. The artistic value is based upon objective feature related to the product or facts related to its presence in some gallery, museum or in artistic journal. The artistic value is for sure something higher than other requirements, for example the individual character or novelty of Community design, this because it is really pervasive type of protection.

Another way to protect the design of a ship or its part is with unfair trade law. In particular, the protection refers to servile imitation when a company imitates a competitor's product to create confusion in the market. The unfair competition law in Italy is regulated by the Article 2598 c.c. where the Legislator has defined some specific acts of unfair competition. The article defined as act of unfair competition a trademark infringement or a passing off³⁶⁰. The second case regards the shape, trait or appearance imitation of other companies' products. This infringement for imitation is based upon two requirements: originality and individual character. The third case in Article 2598 c.c. is an open clause with which the civil code gives importance to any other business practice creating confusion among consumers.

The requirements for the protection are an originality and individual character of the products as affirmed before. These two requirements are cumulative thus products for which is asked a protection with Article 2598 c.c. must be original and must have an

³⁵⁸ Suprema Corte di Cassazione *Soc. Rhun v. Soc. Egan*, 23 March 2017 n. 7477

³⁵⁹ T. COOK "The Cumulative Protection of Design in the European and the Role in such protection of copyright"

³⁶⁰ A passing off is a common law tort prevents one trader from misrepresenting goods or services as being good or service of another.

individual character³⁶¹. It is not required that imitation regards the entire product. It must be limited to those external items of features characterizing the aspect of the product. There is no protection of those traits related to functional aspects of the product³⁶². In this case asking protection means to prove that the copied traits have a distinctive function. The other party must overcome the claimant allegation affirming that the copied trait or shape is a standard trait or shape common in the market³⁶³. The standardization of shape or trait is very relevant for the shipbuilding market where there are many standard traits. This issue will be discussed in the conclusion, where my opinion is that in the shipbuilding sector this limitation must regard all the other items and traits excluding those giving to the good its qualification as a ship. In this regard, it is useful to mention the decision of the Appellate Court of Bari- first section- that in 2004 was asked to decide on a case of unfair competition related to a ship keel. In this case the Appellate Court rejected an appeal asking not to apply the unfair competition law to ship keel because they were not original. The Appellate Court was found agree with the expert when he has affirmed, in the first grade of the process, that shape of the keel is important for the conduct at the sea of the ship because it determines the pace, the resistance and stability. The fact that the keel was created with not usual material determined that originality of the entire keel³⁶⁴. The unfair competition is also regulated by private international law. In particular, Article 6 of Rome II Regulation provides a framework in which this right must be protected. The law applicable to transnational act of unfair competition is the law of *“the country where competitive relations or the collective interest of consumers are, or are likely to be, affected”*³⁶⁵. So the law is the one of the market in which the firms act to find new business opportunity. If there are more countries involved in the unfair behavior and the entire issue is governed by one jurisdiction, the judge must apply all the laws involved in the case in a distributive way. This is called the mosaic treatment³⁶⁶. If the unfair act is against one firm, the applicable law is the one of Article 4 where it is affirmed *“the law applicable to a non-contractual obligation arising out of a tort/delict shall be the law of the country in which the damage occurs irrespective of the country in which the event giving rise to the damage*

³⁶¹ Tribunale di Milano Sez. Proprietà Industriale e Intellettuale 02/05/2012 n. 5049 *Soc. Bergamaschi e Vimercati v. Soc. Bialelli ind.*

³⁶² Tribunale di Milano Sez. Proprietà Industriale e Intellettuale 06/05/2011 in DeJure

³⁶³ Tribunale di Milano 18/09/2014 n. 12847 *D. srl v. L.R. srl*

³⁶⁴ Corte di Appello di Bari Sez. I 10/08/2004 *Cantiere Nautico S. v. S.G.*

³⁶⁵ Rome II Regulation Article 6

³⁶⁶ F. MOSCONI C. CAMPIGLIO *“Diritto internazionale privato e processuale”* Volume I, Padova, 2015

occurred and irrespective of the country or countries in which the indirect consequences of that event occur". Under Article 4 the law applicable is the one of the country in which the damage occurs. In this way we must distinguish between the place where the damage occurred, the place where the event giving rise to the damage occurred and the place in which the indirect consequences of that event occurred. The European private international law proposes a differentiation between direct damage and indirect damage. This distinction is based on the difference between the subject holding harms³⁶⁷. In the case of a firm acting against an unfair business act damaging its interest, the applicable law is the law of the country where the claimant has their headquarter. In this way there is a harmonization between the applicable law and the jurisdiction³⁶⁸. These rules regarding the applicable law cannot be derogated by the freedom of choice of the party³⁶⁹. This is because this structure of rules aims to protect public interest instead of private right.

5.4 PRIVATE INTERNATIONAL LAW: THE LAW APPLICABLE TO CONTRACTUAL OR NON CONTRACTUAL OBLIGATION.

An obligation might arise from an infringement of an intellectual property right. This kind of obligation might be both contractual or non-contractual. The first case regards those agreements having a clause regulating the intellectual property surviving to the delivery of ship. In this case, the contractual obligation, under the Rome I regulation, might be governed by the law chosen by the party. This is commonly the Sale of Goods Act. In this contract the Rome I Regulation³⁷⁰, law applicable to contractual regulation, has introduced a new form of *depeçage*³⁷¹. This new allows party to regulate the contract with a mosaic technique. Parties are allowed to regulate different party of the contract with different law. In this way the surviving intellectual property clause might be regulated by Italian law and the building part of the contract regulated by English

³⁶⁷ See M.MANTOVANI "The indirect consequences of a harmful event in the light of the judgment of the Court of justice in *Florin Lazar*" in Int'Lis, 2/2016

³⁶⁸ F.MOSCONI C.CAMPIGLIO "Diritto internazionale privato e processuale" and M.MANTOVANI "The indirect consequences of a harmful event in the light of the judgment of the court of justice in *florin lazar*" where the A. affirms "Due to the present structure of EU private law, the effectiveness and proper implementation of the policies underlying the European judicial area largely relies in the interpretative strategy adopted for the coordination of its provisions"

³⁶⁹ Article 6.4

³⁷⁰ Article 3.1

³⁷¹ F. MOSCONI C.CAMPIGLIO "Diritto internazionale privato e processuale"

law. This would give Italian shipbuilder a better understanding of how to protect contractual infringement with a huge reduction of cost. The only rule applicable to the *depeçage* is the coherence between the different laws³⁷². This kind of technique might be used for a complex transaction. If the applicable law is not indicated in some clauses, this must be found using the criteria of the Roma I³⁷³. There is no reference to *depeçage* in the Rome II, non contractual obligation, perhaps for part of the doctrine it might be used also for this kind of obligation³⁷⁴. The type of infringement regulated in Rome II make us doubt about this academic position. There is no real understanding of how private interest might regulate such issue. The non-contractual obligation caused by a transnational infringement of intellectual property law is regulated by the Article 8 of Rome II. The Article affirms “*The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed*”. In this legal framework, the article settles that an act of forgery is regulated by the law of the state that issued that patent or other title of intellectual or industrial property. In a case regarding a copyright law, the applicable law is the one of the country where the copyright has been violated. In this way there is a coincidence between *forum* and *ius*³⁷⁵. Of course, in case of a Community right the applicable law is the European regulation that has created them. In this way, the Regulation 6/2002 would be applied to an obligation for infringement of a Community Design. If there is a *vulnus* in the Regulation, as it might be, the Article 8 affirms that “*the law applicable shall, for any question that is not governed by the relevant Community instrument, be the law of the country in which the act of infringement was committed*”. This provision, as the one on unfair competition, might not be derogated by the private autonomy.

³⁷² O. FERACI “*L’autonomia della volontà nel diritto internazionale privato dell’Unione Europea*” Riv. Dir. Internaz. 2/2013

³⁷³ O. FERACI “*L’autonomia della volontà nel diritto internazionale privato dell’Unione Europea*” Riv. Dir. Internaz. 2/2013

³⁷⁴ O. FERACI “*L’autonomia della volontà nel diritto internazionale privato dell’Unione Europea*” Riv. Dir. Internaz. 2/2013

³⁷⁵ See Article 5.3 of Bruxelles I Regulation

CONCLUSION

6.1 A COMPARATIVE APPROACH TO THE LEGAL QUALIFICATION OF A SHIP: A UNIQUE QUALIFICATION SINCE THE ROMAN LAW UNTIL NOW. 6.2 THE UNIFIED DESIGN PROTECTION OF SHIP: NO COMPLEX PRODUCTS, NO FUNCTIONAL DESIGN AND NO EXCLUSION FOR ANY PARTIES RELATED TO NAVIGATION. 6.3 THE NON CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY. THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: DÉPEÇAGE AND POST-CONTRACTUAL OBLIGATION. 6.4 CONCLUSION

6.1 A COMPARATIVE APPROACH TO THE LEGAL QUALIFICATION OF A SHIP: A UNIQUE QUALIFICATION SINCE THE ROMAN LAW UNTIL NOW.

As we have affirmed in the previous chapter, a ship is considered a movable chattel. This is recognised by both the Italian legal order and the English one. This kind of approach is useful for understanding a common root of European law. It is also important to make that concept clear to understand the following part of this conclusive chapter. We are aiming to understand that because of this almost identical definition, any legal order is close to each other in relation to a ship legal definition.

In the Roman law, jurists did not define a ship in a different way than a movable asset. Perhaps, in their legal construction they were always focused on the importance of a ship for trade and its peculiarity. No theory of *universitatis facti*, *universitatis iuris* or *res connexa* has been elaborated for ships but they are simply a part of the Roman legal structure³⁷⁶. The definition of a ship of Roman jurists was focused on the typical use of a ship: navigation³⁷⁷. The doctrine indicates as legal definition of ship the one in Ulp. 28 *ad edictum* “*Navem accipere debemus sive marinam sive fluviatilem sive in aliquo stagno naviget, sive schedia sit*”³⁷⁸ and in Ulp. 68 *ad edictum* “*ait prator: iterque navigii deterius fiat hoc pro navigatione positum est: immo navigum solemus dicere*

³⁷⁶ C.M. Moschetti “*Nave*” in Enciclopedia del diritto XXVII “*Navem quidem perhibent dictam eo quod navum rectorem quarat, id est peritum, sapientem, strenuum, qui continere et gubernare novit propter maritima pericula et casus*”.

³⁷⁷ C.M. MOSCHETTI Op. Cit. “*Navis use fructu legato navigandum mittendam puto, licet naufragi periculum immineat: navis etinim ad hoc paratur*” D. 7, I, 12; Ulp. 17

³⁷⁸ C.M MOSCHETTI Op. Cit. D. 14, I, I

*etiam ipsam navem, iter ergo navigio potest et sic accipi iter navi deterius iat, navigii appellatione etiam rates continentur, quia plerumque et ratum usus necessarius est*³⁷⁹.

The concept of ship included “*omnia autem, quae coniuncta navi essent (veluti gubernacula malus antennae velum), quasi membra navis esse*”³⁸⁰. A term ‘ship’ was legally used to indicate every tool and instrument for the navigation. Those instruments related to the typical activity of the ship were named *pars navi*³⁸¹, *quasi membra navis*³⁸², *armamenta*³⁸³, *instrumenta navis*³⁸⁴. These instruments for navigation were considered a unique asset within the hull³⁸⁵.

In the Roman law a ship had the legal nature of movable chattel. This movable chattel which is considered as a *rex connexae* is assembled by different materials and parts which are not legally relevant. Once the materials and parts are assembled, the only legally relevant asset is the ship. As a consequence, a title of property over a ship does not imply the same title of property over single materials and parts³⁸⁶. It is interesting to highlight that in the Roman law some jurists, on the basis of the economic value of ship,

³⁷⁹ C.M. MOSCHETTI Op. Cit. D. 43, 12, I the roman jurist Ulpiano needed to specify the definition of ship because he support the idea of not every boat was a ship. Today, the idea of Ulpiano would have been found right in the law.

³⁸⁰ C.M MOSCHETTI Op. Cit. D. 21, 2, 44 (Alf. 2Dig).

³⁸¹ C.M MOSCHETTI Op. Cit. D. 50, 16, 242, pr

³⁸² C.M MOSCHETTI Op. Cit. D. 21, 2, 44

³⁸³ C.M MOSCHETTI Op. Cit D. 14, 2, 6; D. 6, I, 3, I; D. 20, 4, 5; D. 42, 5, 34

³⁸⁴ C.M MOSCHETTI Op. Cit. D. 14, 2,3 D. 33, 7, 29

³⁸⁵ C.M MOSCHETTI Op. Cit. There were two exceptions the *artemo* and the *scapha*. It is not clear what the first was. Perhaps, Labeone has affirmed “*Malum navi esse partem, artemonem autem non esse Labeo ait, quia peraeque naves sine malo inutiles essent, ideoque pars navis habetur; artemo autem magis adictamento quam pars navis est*” (D. 50, 16, 242 pr.) it is quoted in relation to a ship in the storm so it is consistent with source to consider it as second mast. In this way it was not considered as a part of a ship because it was not necessary for the navigation. It was a safety measure. The *scapha*, a lifeboat, as well as the *artemo* was not considered as a *pars navis* the lifeboat was not included in the sale of agreement “*scapham non videri navis esse respondit nec quicquam coniunctum habere, nam scapham ipsam per se parvam navunculam esse*” (D. 21, 2, 44 Alf. 2 digestorum a Paulo epitomatorum and “*Si navem cum instrumento emisti, praestari tibi debet scapha navis. Paulus: immo contra. Etinam scapha navis non est instrumentum navis: etinim mediocritate, non genere ab ea differt, instrumentum autem cuiusque rei necesse est alterius generis esse atque ea quaequae sit: quod Pomponio libro septimo epistularum placuit*”.

³⁸⁶ “*Qui universasaedes possedit, singulas res, quae in aedificio sunt, non videtur possedissee, idem dic debet et de nave et de armario*” D. 41, 2, 20, pr. Paul. 15 ad Sabinum.

were willing to apply a legal protection conceded to building³⁸⁷. This approach is not different from the one highlighted by Simon Curtis in its “*Construction Law Principles and Shipbuilding Contracts*”³⁸⁸. In this article, the eminent English shipbuilding jurist quoted the *Adyard Abu Dhabi v. Sd Marine Service*³⁸⁹ case where because of the economic importance of the ship, the High Court of Justice, Lord Hambken, applied some principles of construction law to shipbuilding.

In the medieval age the legal definition of a ship was a bit different. The law of important Italian cities of that time is the basis for our research. The *praxi* was to consider the sailboat as a part of a ship. It was considered an asset of the ship³⁹⁰. Even in an agreement of sale signed 8th April 1182, the sailboat was considered as a part of the ship “*erit bene calcata pegata cum barcha et barcheta et sartiata duorum arborum IIII antenarum quatuor velorum*”³⁹¹. In the medieval age, ships were considered movable assets. In the *Constitutum Usus* ships are related to movable goods but even in this age the importance of the economic value of the ship was recognized. In this way the *Consuetudinibus praeclarae civitatis Bari* allowed the use of *ius protimiseos*, a special right developed for real estate asset, for the ship. During the 12th and 13th centuries a judge named Andrea of Bari affirmed that “*ius prothimisis in paediis rusticis obtinet, et urbanis, nec ad mobilia trahitur, nisi ad naves, quae quasi domorum vice funguntur*”³⁹².

³⁸⁷ “*Si de nave deiectum sit, dabitur actio utilis in eum qui navi praepositus sit*” D. 9, 3, 6, 3, Paul. 19 *ad edictum*, “*Nave aut domu empta singula caementa vel tabulae emptae non intelleguntur ideoque nec evictionis nomine obligatur venditor quasi evicta parte*” D. 21, 2, 36, Paul. 29 *ad edictum*; “*Eadem lege (iulia de vi public) tenetur, qui hominibus armatis possessorem domo agrove suo aut navi sua deicerit*” D. 48, 6, 3, 6 Marcian. 14. *institutionum*; “*Si navis a malae fidei possessore petatur, et fructus aestimandi sunt, ut in taberna et area quae locari solent*” D. 6, I, 62 Papin. 6 *quaestionum*;

³⁸⁸ S. Curtis L. Elmes Op. Cit

³⁸⁹ [2011] EWHC 848 (Comm)

³⁹⁰ C.M MOSCHETTI Op. Cit. quoting the Ad l. 3 Cod. de Nautico foenore, Venetiis, 1599 “*navi confiscata, confiscata est scapha, quae erat servitialis navi et ad ipsam ligabatur*”.

³⁹¹ C.M MOSCHETTI Op. Cit.

³⁹² C.M MOSCHETTI Op. Cit. and MASSILLA *Commentarii super Consuetudinibus praeclarae civitatis Bari, Patavii, 1550*

In the XVI- XVIII centuries, there is no doubt that the ship is considered by the Italian doctrine as a movable asset and this term is used for all kinds of boat³⁹³. The equipment of the ship was considered *quasi membra navis* in the Roman way³⁹⁴.

In the current situation, a definition of ship is regulated at national level. There are many international sources that provide a definition of ship. However, all of them are focused on the dominant feature of ships: the navigation. The Italian public international law doctrine has given the definition of ship as any apparatus able to move on the water within its specific equipment³⁹⁵. This academic definition is lined in the disposition of art. 136 of the Italian Navigation Code where ship is any construction created for the carriage by the sea also for trailer, fishery, sport and other aims. In accordance with the Roman law, the Italian Code does not give any importance either to the material of the construction or to the size of the ship³⁹⁶. On the basis of the Italian law, ships have to be floating and adapt to navigate. These two concepts are not affirmed in the Article 136 of the Navigation Code because there are presumed in the expression “carriage by sea”³⁹⁷. As we have affirmed, a ship under construction must not be considered as a ship. It would be after the launch where the floating attitude and the ability to navigate would be proven, in a certain way.

In the English system, there is no really important difference. Even in that legal framework, ship includes every description of vessel used in navigation³⁹⁸. This definition is contained in the Merchant Ship Act of 1995. This definition has been spread over the last century. In the Merchant Ship Act of 1894, “*ship includes every description of vessel used in navigation not propelled by oars*” in the Merchant Ship Act of 1921 ship is “*every description of lighter, barge or like vessel used in*

³⁹³ C.M MOSCHETTI Op .Cit. “*sub quo vocabulo omnia navigatorum genera contineri diximus et probavimus navigium pro navigatione postum est, immo Navigium solemus dicere etiam ipsam nave, et navigi appellatione etiam rates continentur*” or “*Advertendum est, quod nomen novis uti genericum convenit omnibus vascellis et sic etiam Urcae et Pinco, licet sint naves minoris armamenti et securitatis*”.

³⁹⁴ C.M MOSCHETTI Op.Cit. “*Armamenta navis singula erunt vindicanda scapha quoque separatim vendicabitur*”.

³⁹⁵ T. TREVES “*Il diritto del mare e l’Italia*”, Milano, 1995

³⁹⁶ D. Gaeta “*Nave*” in Enciclopedia del diritto XXVII Vol. “*Navigii appellatione etiam rates continentur* (D.. 43, I2, I, I4) “*sive schedia sit*” (D. 15, I, I 6).

³⁹⁷ D. GAETA Op.Cit

³⁹⁸ Osbornn’s Concise Law Dictionary

navigation, however propelled". In the Italian and English legal systems, the legal definition of ship includes any kind of construction used for navigation however propelled. In this sense, there is no real difference between these two legal definitions in which the equipment is included and some ideas are presumed such as the float and navigation ability.

6.2 THE UNIFIED DESIGN PROTECTION OF SHIP: NO COMPLEX PRODUCTS, NO FUNCTIONAL DESIGN AND NO EXCLUSION FOR ANY PARTIES RELATED TO NAVIGATION.

The Regulation 6/2002 provides a unified protection for industrial design. They must be novel, they must have an individual character and must not be dictated by functional or regulatory reason. In case of complex products, as they are defined in the Regulation, the protection is limited to visible parts.

The first issue is to understand in which category of Article 3 the ship must be placed. A product is defined as *any industrial or handcraft item, including inter alia parts intended to be assembled into a complex product, packaging, get-up, graphic symbols and typographic typefaces, but excluding computer programs*". The other definition is provided for complex product *"a product which is composed of multiple components which can be replaced permitting disassembly or re-assembly of the product"*. The previous analysis over the legal qualification of ship in the English and the Italian legal order leads us to consider a ship as a product. It is a fact that a ship in these two legal orders is considered a movable good with particular characteristics such as the attitude to carriage by sea or to navigate. It is clear that we can name differently each part of the ship (hull, engine, funnels etc.) but after the launch the chattel becomes a ship with its capacity to navigate. This movable chattel must be protected by the industrial design. This kind of distinction is relevant because in the case of definition as a complex product, the protection is limited to visible parts and to the extent that those visible features are novel and have an individual character (Article 4 (b)). In the wrong idea to consider a ship as a complex product we might exclude from the protection a part as a hull or other invisible features.

The importance of the definition as a product for the navigation or carriage by sea is relevant also for exclusion of any application of Article 8 of the Regulation to the ship. The Article 8 affirms that *"a community design shall not subsist in features of*

appearance of a product which are solely dictated by its technical function". A wrong interpretation might lead us to exclude any kind of design protection of a ship on the basis of the fact that any choice for the design of a ship is related to technical function. In my point of view, technical function at Article 8 does not include choice related to floating attitude and the ability to move on sea. This affirmation is based on the idea that without these two technical features there is no ship. A chattel without the technical possibility to navigate might not be registered as a ship. So in the case of ship and in the shipbuilding sector we would apply the Article 8 to other parts than those related to its specific aims which is the carriage by sea. It seems that this theory is in accordance with Article 20 point 2 letter a) "*the rights conferred by a Community design shall not be exercised in respect of the equipment on ships and aircraft registered in a third country when these temporarily enter the territory of the Community*". This article is inspired by the Article 5 *ter* of the Paris Convention which has been applied by U.S. Courts and English Court in the case *Stena Rederi A.B. v. Irish Ferries Ltd.* In the case, the term temporarily was meant to say "*for a limited time*" or "*transient*" thus the Irish Ferries were found liable. Considering the fact in that case, in my opinion the term temporarily or the expression for a limited time means act done privately and for non commercial purposes. However, the important feature of the Article is the exclusion of protection for the equipment of the ship. In the Italian translation the word equipment is translated in furniture. In this translation we find the real extent of design protection for ship. A ship is to be protected as a chattel with the attitude to navigate. The only accepted limitation is related to equipment or furniture which might be legally divided by the ship and for which it can be asked a specific protection.

Another kind of limitation is represented by the regulation and law binding the designer or architect to some choice. Of course almost everything features or parts of the ship are dictated by binding regulations, perhaps this possible exclusion is not a real treat. In this case the problem shall be resolved applying the Article 6 clause 2 where is written that "*in assessing individual character, the degree of freedom of the designer in developing the design shall be taken into consideration*". On the basis of such clause, in a market such as the shipbuilding sector, where the degree of freedom might be really narrow, even little change or small features might have an individual character for the informed user. Using this definition, there is a higher degree of possibility to defend the design of really expensive ship such as a yacht even when they have small or little differences. On

the basis of this interpretation, in the shipbuilding sector, a small different features among design is not a base for asking damages but is a feature to be protected.

This approach allows a comprehensive protection of ship, a chattel dedicated to navigation, and a product under the definition of Regulation 6/2002. Those parts influenced by a technical choice related to its ability to navigate are patentable if imposed by the aim of carrying people and goods by the sea. This is because the legal definition of ship which has been provided because its importance in the world economy. A different approach must be followed in the case of features or other design choices imposed by any type of other regulation affecting the project of any ship. In this case, the features are protectable. Those regulations reducing the degree of freedom of the designer or architect, reduce level of individual character required for a protection. The approach is in line with the market reality because it is really hard to differentiate a ship from another, particularly in the yacht sector. In this way the Regulation recognizes a protection to those economic efforts of designer or shipbuilder aiming to find new features or, in general, new design for the products even if efforts end with a small degree of individuality.

6.3 THE NON CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY. THE CONTRACTUAL PROTECTION OF INTELLECTUAL PROPERTY: DÉPEÇAGE AND POST-CONTRACTUAL OBLIGATION.

The infringement of intellectual property or industrial property titles might be a base for a non- contractual liability. Perhaps, the same facts might be a source for a contractual liability if the party has agreed on it in their contract. The second type of obligation, in the context of international trade, will be analysed in the second part of this chapter. The first type of obligation, non-contractual, is regulated within international features by the Rome II Regulation. This Regulation provides the lawyers with some criterion for finding the applicable law related to non-contractual liability. The Rome II Regulation does not allow a use of private autonomy because the fact originating the obligation damages both private and public goods.

In this view, in case of unfair act and counterfeit of goods or immaterial goods, the Regulation finds the applicable law without any room for choice made by the party. In case of unfair trade, Article 6 of Regulation makes a difference between the facts affecting more than one firm and those affecting only one firm. The first case has a

mosaic approach, which might be used also in the agreement through the *depeçage*. So, the Judge would apply any legislation involved in the unfair practice. If a firm with a legally registered office in the United Kingdom has productive locations in Romania, Bulgaria and Albania where it has an unfair behaviour damaging an Italian firm, the Judge would apply the laws of these countries respectively. This is because it represents the market in which the two firms are trying to acquire market room. Otherwise, Article 6 comma 2 provides the judge with the general criterion of the Article 4. The judge would apply the law of the Country where there has been a damage or if the parties have a registered office in the same countries the law of this State. As a last opportunity, a Judge might apply a law of a third country if there is a closer link with this third state. In cases of counterfeit of intellectual property or industrial property titles and copyright law, the principle *lex loci protectionis* is applied. In this way, the judge must apply the law of the State for which the protection is required. This approach might not be an object of negotiation between the parties. In case of unified title such as the Design Patent, the law applicable to non-contractual obligation is to be found using the criteria contained in the Regulation. The Regulation 6/2002 on the European design, Article 88, binds the courts to apply the rule contained in the Regulation. A Court shall apply its national law if it is asked to provide a solution to a problem not regulated by this Regulation, including its private international law. In the Italian case, a court shall apply the Rome II because the Italian conflict of law system refers to this regulation.

Since the beginning of this work, we have focused our attention on the importance of private autonomy in international trading and legal problems related to agreement with international features. The absence of a unified legal framework for regulating international shipbuilding agreement is resolved with the creation of different contractual schemes or templates. Some firms have developed their own scheme, but the problems related to international features of the trade might remain.

These problems are related to the application of a different law to the agreed obligation. This use of foreign law is not a bad choice if it is limited to the primary obligation, *i.e.* the delivery of the ship. This is because both parties want to perform the contract. The builder wants to deliver the ship on time and to build valuable economic relations with the buyer that wants to use the ship to make profits. In such framework, all kinds of problems related to the execution of the main contractual performance would be regulated by the contract or by emendation to the contract negotiated by the parties.

The real problem regards the obligations which do not affect the delivery of the ship. This kind of problems might lead the parties to use instead of contractual remedies or negotiation other system of dispute settling. They usually use an arbitration. This tool might lead to a conclusion that is hard to predict because it questioned the agreement for different issue than the main obligation applying a foreign law which in our case is an English law.

This problem is relevant to the issue of contractual intellectual property protection. It is relevant because we choose a law on the basis of the main obligation, which is the construction of a ship, without thinking that the law shall be applied to any issue related to that contract.

Having studied many different clauses to protect intellectual and industrial property we can affirm that they are almost the same in any contract. We have seen that yacht contract has a more sensible approach. Perhaps, the party applies to the clause the same law. Aiming to provide a more efficient contractual protection we consider important to introduce two concepts in order to improve the protection of our intellectual property: *depeçage* and post contractual obligation.

The *depeçage*³⁹⁹ is a legal drafting technique that has appeared for the first time in the legal drafting. Within the Rome Convention and the Regulation of Rome I Art. 3.1 it was introduced as an agreement drafting technique. On the basis of that Article “*by their choice the parties can select the law applicable to the whole or a part only of the contract*”. This technique permits parties to choose different law to govern different parts of the contract⁴⁰⁰. In order to operate it appears that a contract must consist of different parts “*which are separable and independent of each other from the legal and economic point of view*”⁴⁰¹. The use of *depeçage* is consistent with the common law⁴⁰². Perhaps, the approach of common law with this technique is based on separability of contractual parts. It appears that a contract must consist of several parts which are separable and

³⁹⁹ P. LAGARDE “*Le depeçage dans le droit international privé des contracts*” in *Rivista di diritto internazionale privato e processuale* n. 4/1975; F. BORTOLOTTI “*Manuale di diritto del commercio internazionale*” V. I, Padova, 2001; F. MOSCONI C. CAMPIGLIO “*Diritto internazionale privato e processuale*” V. I, Padova, 2015; “*Benjamin’s sale of goods*” London, 1997

⁴⁰⁰ *Benjamin’s sale of goods*” London, 1997

⁴⁰¹ *Benjamin’s sale of goods*” London, 1997

⁴⁰² See *Kahler v. Midland Bank Ltd* [1950] A.C. 24, 42; *Re United Railways of the Havana and Regla Warehouses Ltd* [1960] Ch. 52, 92.

independent of each other from the legal and economic point of view⁴⁰³. If the choice of law does not respect logic criteria based on legal and economic structure of the agreement, then the choice of law has no effect and the applicable law must be determined in accordance with the article 4 of Rome I. In this way, the choice of law of a contract is made on the basis of a legal and economic logic approach. In practical way, we might find at least three types of obligation in a shipbuilding agreement: a project developing obligation, a proper building obligation and a post-delivery obligation in which we might find some determination aiming to protect intellectual property.

Clauses protecting intellectual property are usually placed in post-delivery obligation category. The category of post-contractual obligation is well known in the international agreement⁴⁰⁴. It is common for international agreement to regulate also the post-contractual phase within some clauses in the contract. There are two types of this post-contractual clauses or obligations. The first type winds the situation that the contract has created up. During the negotiation of the agreement and during the execution of the main obligation, the parties are involved in different types of relationship that must be resolved once the main obligation is executed. Some examples of this clause are a fate remaining stock clause, a fate of a data bank clause, a return of documents clause. These clauses aim to regulate some issues created by the execution of the contract. The other types of clause are those that create obligation after the execution of the main contractual obligation. The aim is an arrangement ensuring the lasting survival of certain legally binding links after the principal obligation has come to an end⁴⁰⁵. Some examples of this clause are a non to compete clause, a duties of confidentiality clause or a guarantee obligations. The main problem related to post-contractual obligation of the second group is the lawfulness of some clauses. Any post contractual obligation is based on a legal provision. In the Italian Civil Code the guarantee obligations finds minimum standards in the Civil Code⁴⁰⁶. The not to compete clause is also regulated in an article of the Italian Civil Code. These statutory provisions create a minimum legal

⁴⁰³ *Benjamin's sale of goods*" London, 1997 and The Report of Giuliano- Lagarde

⁴⁰⁴ M.FONTAINE F. DE LY "La redazione dei contratti internazionali a partire dall'analisi delle clause",Milano, 2008, M. FONTAINE F. DE LY "Drafting international contracts an analysis of contract clauses", Leiden, 2009.

⁴⁰⁵ M. FONTAINE F. DE LY *Op.Cit.* 2009

⁴⁰⁶ We exclude the consumer law because we are conducting the research into a b2b sector.

standard in the case of a guarantee clause, and a legal limit in the case of a not to compete clause, that makes these clauses lawful. It is well-known that if a not to compete clause exceeds five years of duration, a judge might reduce its duration into the legal limit. This approach has been used few times in the shipbuilding sector for some yacht construction agreement where it has been affirmed that “*subject only to the provision of sub-clauses 18.2.2.2 and 19.3, the provisions of this clause 12 shall survive the performance of termination of this agreement of any reasons whatsoever*” the clause 12 relates to intellectual property protection with different types of obligation for the builder. If the parties have used the *depeçage* and chose to apply to this clause the Italian law, this would result as unlawfulness. It is hard to believe that such type of obligation would last forever. It would be different to provide a temporal limit to this post-contractual obligation similar to the duration of public protection granted by the unified or national titles of intellectual property. In this way we might include in our shipbuilding contract a clause such as the provision of this Clause in relation to design (or other title) shall survive the performance of termination of this Agreement for 25 years which is the maximum period of protection granted by the Regulation n. 6/2002.

6.4 CONCLUSION.

The shipbuilding sector emphasizes all the difficulties in providing an efficient protection of intellectual property. This is because it is a market with many elements of internationalization *i.e.* the registered office of the parties, the flag of the ship, the registered office of sub-contractors. This makes a protection really difficult. Universal title of protection does not exist. There are some processes aiming to get titles in different legislations at the same time. Perhaps, the European Community, before, the European Union now, has worked for harmonizing the different national legislations and for creating some unified title of protections such as the Unified Design. This title makes a protection easier and more efficient. The protection of intellectual property might be obtained in the context of non-contractual liability and this way it might be really expensive and not effective. A contractual protection of intellectual property is the most efficient way to protect intangible assets. This kind of protection might be obtained using a post-contractual obligation which binds the parties not to disclose or infringe these titles after “termination” of the contract, whatever is the reason. This kind of approach has been used in contracts for a yacht construction. This kind of clause

might be inconsistent with Italian law, however, this kind of inconsistency might be fixed with a time limitation of the post-contractual obligation. A time limitation might last as long as the public protection. In addition to this post-contractual duty, the clause on intellectual property might be subjected to *depeçage* in order to apply Italian law to the issue arising from that clause. In this way, any Court or Arbitral tribunal is bound to apply the Italian law and Italian principles to the issue relating infringement of the specific clause.

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