

7 Problems Surrounding Intellectual Property Rights under Private International Law

Despite the prospected increase in intellectual property (IP) disputes beyond national borders, there are no established global rules on international jurisdiction, applicable law, and recognition and enforcement of foreign judgments. Therefore, it has been pointed out that transactions related to intellectual property rights (IPRs) lack foreseeability. This is also mentioned as a problem to be addressed in the Intellectual Property Policy Outline of Japan. In Japan, the Supreme Court indicated a certain decision in the so-called card reader case as to whether a Japanese court may carry out proceedings on foreign patent infringement and the law to be applied. However, a general rule has yet to be established. In the international arena, discussions are under progress to formulate international rules on civil litigation including IP-related lawsuits in the negotiation process for the Convention on Jurisdiction and Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters at the Hague Conference on Private International Law.

This study report examines the latest court judgments and academic theories on international jurisdiction and applicable law in Japan, the United States, and major European countries, as well as reviews how Japanese organizations have responded to the draft Hague Convention. In addition, it studies the problem of applicable law for foreign patents on employees' inventions and the trend of rule-making in Asian countries, which are areas that have not been sufficiently studied in the past from a private international law perspective.

I Introduction

This report examines the trends in the formation of international rules represented by the draft Hague Convention, the current status of rules in Japan and other countries, and the handling of foreign patents on employees' inventions with regard to various IPR-related problems under private international law.

II Progress in Drafting the Hague Convention and Movements of Various Organizations Concerning the Rule-Making of IPR-Related Problems under Private International Law

1 Course of development of and progress in the draft Hague Convention

(1) Course of development of the discussions

Formulation of the draft "Convention on Jurisdiction and Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters" has been discussed at the Hague

Conference on Private International Law since 1992. The Preliminary Draft of the Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters was adopted in 1999 and a new version of the interim text was drawn up at the Diplomatic Session in 2001. At present, discussions are being made on a more focused draft convention on exclusive choice of court agreements.

(2) Examination of the draft "Convention on Exclusive Choice of Court Agreements" drawn up by the Hague Conference on Private International Law in December 2003^(*)

As of March 2004, the draft Convention is very likely to exclude from its scope the validity of patents, trademarks, protected industrial designs, and layout-designs of integrated circuits, as well as the validity of other IPRs whose validity depends on, or arises from, their registration (except copyright). Nevertheless, the scope of IPRs that will be excluded from the scope of the Convention is still under discussion. On the other hand, the Convention is expected to be applied to proceedings related to IPR infringement or IPR licensing. Furthermore, the Convention is likely to apply to the determination of the validity of an IPR as an

(*)1 From the time this study was finished and until this report was completed in May 2004, the draft "Convention on Exclusive Choice of Court Agreements" was reviewed in March 2004 at an unofficial meeting on intellectual property held in the United States and in April 2004 at the Special Commission meeting in Hague. IPRs other than copyright and related rights are excluded from the scope of the Convention. However, the Convention applies to proceedings on contracts related to licensing or transfer of such IPRs, including litigation on infringement of the IPRs involved in these contracts. The Convention also applies to determination of the validity of an IPR as a pure incidental matter for proceedings. It should be noted that this draft Convention is aimed to be adopted at the Diplomatic Session in the beginning of 2005, and that the provisions may be further altered during that course.

incidental matter for infringement proceedings or the like. However, Japan and the EC have made proposals on how to deal with a case where there is a conflict between a foreign judgment that has determined the validity of an IPR as an incidental matter for proceedings and a ruling or judgment that has squarely determined the validity of the same IPR and is effective against third parties (*erga omnes* decision). The deliberations on these proposals have yet to be completed. It should be noted that this draft Convention only presents rules on the international jurisdiction and recognition/enforcement of foreign judgments for cases where the parties have concluded an agreement on jurisdiction. The formulation of general rules still remains as a future task.

(3) Domestic organizations' view on the "Draft on Exclusive Choice of Court Agreements"

The Japan Business Federation ("Nippon Keidanren"), the Japan Intellectual Property Association, and the Japan Electronics and Information Technology Industries Association opine that it is significant to establish unified international rules on agreements on jurisdiction in the form of a convention. They regard, however, that because IPRs are closely related to the industrial policies of the respective countries and the IPR systems have been established and operated under the principle of territoriality for a long time, the scope of protection and interpretation of infringement, as well as the procedures, differ considerably by country. In addition, they consider that the current draft, which excludes the validity of patents, etc. from the scope of the Convention, but includes it when the validity is determined as an incidental matter for an infringement lawsuit or the like, does not conform to the reality of patent lawsuits where the issue of validity is always inextricably linked with discussions on infringement. In conclusion, they find it desirable to consider rules on IPR-related international jurisdiction separately by also eyeing establishment of rules on applicable law and harmonization of substantive law.

(4) Overseas organizations' view on the "Draft on Exclusive Choice of Court Agreements"

In the United States, opinions are divided into two. One is the same view as that of Japanese industry. The other is a view to totally include IPRs in the scope of the Convention, including determination of their validity, only with respect to the jurisdiction by agreement, which reflects the voluntary intention of the parties. The basis for this view is that it is admissible for a court of a country other than the country of registration of the IPR to have jurisdiction on the premise of rendering a judgment on the specific case, which is only effective between those specific parties.

2 Movements of various organizations on the matters

(1) Discussions at the AIPPI

Recently, the International Association for the Protection of Intellectual Property (AIPPI) has started to review afresh whether a court outside the country of registration can have jurisdiction over an IPR infringement lawsuit irrespective of the presence of an agreement on jurisdiction between the parties, or whether the lawsuit should be under exclusive jurisdiction of the country of registration, in response to the fact that the draft Hague Convention only applies to exclusive choice of court agreements. The resolution for Question 174 that was adopted in October 2003 under the initiative of Holland and other European countries stated that proceedings outside the country of registration should be allowed in order to meet the globalization of business. As a requirement for such proceedings, it mentioned the presence of an objective connection between the territory of the court and the infringing act, such as that the defendant is domiciled in that territory. However, few countries have such court precedents except for Japan and Europe, and the opinions are divided among countries. Though not included in the resolution, discussions were also made on an idea to require a connection between the territory of the court and the place where the infringing act was committed for granting jurisdiction, and the spider in the web doctrine, which affirms concentrated jurisdiction to the country where the principal defendant is domiciled in a lawsuit involving multiple infringers. The resolution also stated that the applicable law for the substance of the litigation should be the law applicable to the allegedly infringed IPR, and the applicable law for the procedure should be the law of the territory of the court. The AIPPI intends to continue discussions mainly focusing on the international jurisdiction, applicable law, and rules of evidence regarding litigation on the validity of an IPR, as well as on pendency of litigation in multiple countries.

(2) The projects of the American Law Institute (ALI) and the Max Planck Institute (MPI) on international jurisdiction and conflict of laws in IPR-related disputes

Attempts to draft IPR-specific international rules on international jurisdiction include the projects conducted by the American Law Institute (ALI) and the Max Planck Institute (MPI). Both of these projects are still in progress. With regard to international jurisdiction, both projects grant the general jurisdiction to the habitual residence of the defendant. Based on this, the ALI scheme gives the basic jurisdiction over IPR infringement litigation to the place of tort, and additionally gives jurisdiction

to the place to which the infringing act is directed, considering the Internet environment. In contrast, the MPI scheme gives jurisdiction to the country of registration while denying jurisdiction of the place of tort. However, for jurisdiction that is solely grounded on registration of the IPR, it imposes certain requirements and if the place does not meet those requirements, it also allows other countries to have jurisdiction. Neither scheme gives exclusive jurisdiction for infringement litigation to the country of registration. As for litigation on the validity of an IPR, the ALI scheme affirms the jurisdiction over a declaratory judgment based on the same rules as those for determining jurisdiction over infringement litigation, while exceptionally giving exclusive jurisdiction to the country of registration for a lawsuit solely intended for confirming the validity of an IPR that takes effect by registration. On the other hand, the MPI scheme gives jurisdiction for litigation on the validity of an IPR also to countries other than the country of registration, but the judgment by a court in those countries is not to be effective against third parties. A judgment that is effective against third parties (*erga omnes* decision) is to be under the exclusive jurisdiction of the country of registration.

The ALI scheme also includes comprehensive rules on the choice of applicable law and recognition/enforcement of foreign judgments. In terms of applicable law, it takes an approach to apply the law of the country of registration if the IPR takes effect by registration, and apply the law of the country having the main market that is affected by infringement if the IPR takes effect without registration.

III Examination of International Jurisdiction, Applicable Law and Rules on Recognition and Enforcement of Foreign Judgments for IP Litigation

1 Applicable law and the principle of territoriality: The principle of territoriality in Japanese court judgments

In the card reader case, the Supreme Court of Japan indicated a concrete interpretation of the principle of territoriality, following the Supreme Court judgment in the BBS case in which the court abstractly defined the principle. The principle of territoriality can be defined by the following three aspects. First is the *autonomy of procedures* in that each country regulates the procedures for approving certain effects for inventions based on the country's industrial policy by its national law. Second is the *autonomy of effects* in that each country regulates the

effects of inventions based on the country's industrial policy by its national law. Third is the *territorial scope of effects* in that a patent right registered in a country is only effective within the territory of that country.

When applying this categorization to the court judgments that have referred to the principle of territoriality in association with patent law, the first category applies to two court judgments related to the issue of requirements for amendment in the Japanese patent filing procedure. The second category applies to three court judgments related to export to a foreign country and establishment of infringement deemed (patents registered in Japan), one court judgment related to a case of working part of the constituent features of a process invention and establishment of direct infringement (a patent right registered in Japan), and the three court judgments in the card reader case related to the possibility of demanding an injunction of an act committed in Japan based on a foreign patent right (a patent right registered in the United States). Among these, the three judgments related to export to a foreign country and establishment of infringement deemed (patents registered in Japan) and one judgment related to a case of working part of the constituent features of a process invention and establishment of direct infringement (a patent right registered in Japan) fall within the third category as well. In contrast, different determinations are made on the principle of territoriality in four court judgments including the judgment in the BBS case related to parallel import of patented products and three court judgments related to employees' inventions and foreign patent applications. Among the latter court judgments are those that have interpreted the principle of territoriality indicated in the Supreme Court judgment in the card reader case to be limited in scope. This view also coincides with the above categorization.

2 Examination of the determination of jurisdiction and applicable law in recent Japanese court judgments

(1) Applicable law for a demand for an injunction based on a patent right and a claim for damages for patent infringement: Decision of the Supreme Court First Petty Bench judgment on September 26, 2002 [Card reader case]

Theories have traditionally been divided on deciding the applicable law for a demand for an injunction or destruction based on a patent right, depending on the interpretation of whether or not decision of an applicable law is necessary in the first place, and if it is, whether the act in question is

qualified as the effect of a tort, a real right, or a patent right. In addition, in deciding the applicable law for a claim for damages for patent infringement, there was a theory that denied the need for deciding the applicable law and a theory that qualified the act of patent infringement to be a tort and applied Article 11(1) of the Japanese Law on the Application of Laws. Even in the latter theory, the interpretations were further divided in terms of how the *place where the events causing claims occurred* as in Article 11(1) of the Law on the Application of Laws should be interpreted when the place of tort and the place of outcome differed, in other words, when the tort was committed in a remote place. The interpretations included those that supported application of the law of the place of act or the law of the place of outcome, those that adopted a dualistic theory, a theory that gave comprehensive consideration, and a theory that let the injured party choose the applicable law. The Supreme Court judgment in the card reader case held that a demand for an injunction and destruction based on a U.S. patent right and a claim for damages for infringement of a U.S. patent right were both claims under private law that were based on a property right of a private individual. The court, first of all, adopted a theory that focused on the effects of the patent regarding the demand for an injunction and destruction based on a U.S. patent right, and applied the U.S. patent law on the basis that the applicable law for effects of a patent right were the law of the country of registration of said patent right. Meanwhile, the court held that the applicable law for a claim for damages was to be decided pursuant to Article 11(1) of the Law on the Application of Laws by qualifying the act to be a tort. The court found the defendant's act to be a joint tort committed in a remote place, which actively induced acts of direct infringement of the U.S. patent right. Then, based on the theory of applying the law of the place of outcome, the court applied the law of the United States where the outcome—patent infringement—occurred.

As a consequence, when international jurisdiction is affirmed in a case where an action is filed against a person who directly or indirectly infringes a patent right registered in Country A, which is a foreign country, and the place the infringement takes place is also Country A, the applicable law for a demand for an injunction would be the law of Country A, which is the country of registration, and the applicable law for a claim for damages would also be the law of Country A, which is the place of tort; in this case, there would be scope for both claims to be affirmed. However, if one demands an injunction against a person who, from outside Japan, instigates or assists an act of patent infringement to take place in Japan, the

applicable law would be the law of Japan, which is the country of registration; in this case, an injunction cannot be ordered under the current Japanese patent law by deeming the act of instigating or assisting infringement from outside the territory of Japan as an act of infringement. Nevertheless, if this case is brought before a U.S. court, there is scope for the claim to be affirmed.

The Supreme Court judgment in the BBS case defined the principle of territoriality as follows: a patent right of a country is stipulated under the law of the country as to its establishment, transfer, effects, and other aspects, and the patent right is only effective within the territory of the country. This definition can be divided into the former part and the latter part. The former part is that a patent right of a country is stipulated under the law of the country as to its establishment, transfer, effects, and other aspects (a principle in terms of conflict of laws). The latter part is that the patent right is only effective within the territory of the country (a principle on the effects of a patent right under substantive law; a principle that the patent law of a country does not bind another country, which is a principle of public law). It is necessary to strictly interpret and distinguish the meanings of the principle of territoriality in this manner in the future. Although there are some criticisms against the principle of territoriality, it is possible to apply the principle also to IPR infringement litigation related to a tort committed in a remote place by normative identification of the infringer and applying the law of the place of outcome to the claim for damages.

(2) Examination from a practical perspective and problems to be addressed: The court judgment in a declaratory judgment action seeking confirmation of non-existence of a right to demand an injunction based on a U.S. patent right

The court judgment in a declaratory judgment action seeking confirmation of non-existence of a right to demand an injunction based on a U.S. patent right (Tokyo District Court judgment on October 16, 2003) adopted an idea similar to the conventional prevalent theory and the former draft convention of the Hague Conference on Private International Law. The idea was that only the country of registration has the authority to examine the existence or validity of a patent right. At the same time, however, the court rendered a reasonable judgment that, if a defense of non-existence or invalidity of the patent right is made against a demand for an injunction and if the demand is dismissed on the ground of the defense, that determination on the invalidity of the patent is merely part of the reasons for the judgment on the lawsuit demanding an injunction, and is not effective against third parties; therefore, there is no need to grant exclusive jurisdiction to the country of registration, and courts of other countries should also be allowed to carry out the

proceedings.

In terms of applicable law, the court followed the Supreme Court judgment in the card reader case, which qualified the right to demand an injunction based on a patent right to be the effect of the patent right. The court denied literal infringement and infringement under the doctrine of equivalents based on the U.S. patent law. As for the defendant's slanderous act of injuring the plaintiff's business reputation by informing and disseminating false facts to U.S. clients from Japan, in other words, the act of tort committed in a remote place, the court applied the law of Japan, which was the place of act, and determined whether or not the defendant's act corresponded to the act of unfair competition prescribed in Article 2(1)(xiv) of the Unfair Competition Prevention Law. However, there is no reason to distinguish between violation of the Unfair Competition Prevention Law and patent infringement, so it would be reasonable to find infringement by applying the law of the place of outcome, that is, applying the U.S. law, on the basis that the act of injuring the plaintiff's business reputation was committed in the United States.

(3) Copyright-related litigation and international jurisdiction: Supreme Court Second Petty Bench judgment on June 8, 2001 [Tsuburaya Production case]

In the Tsuburaya Production case, the appellant sought a declaration that the appellee did not own copyright in Japan and claimed damages for a tort based on the appellee's obstruction of the appellant's business that took place over the question of whether the appellee had an exclusive right to use the work. At the same time, a demand for an injunction of copyright infringement was made in Thailand.

In the lawsuit in Japan, the Supreme Court affirmed Japan's international jurisdiction for the claim for a declaration of non-existence of copyright, based on the place of property, since the copyright subject to the claim existed in Japan. The court also recognized the benefit of declaration. Although various arguments have been made over this issue, there still seems to be some scope for further examination in terms of the distinction between co-ownership of a copyright and co-authoring of a work, among other aspects.

With regard to the claim for damages for a tort against the defendant who was not domiciled in Japan, the court indicated a general view that there was a need to prove the objective fact relevance that the plaintiff's legal interests were injured by the defendant's act conducted in Japan, based on the forum of the place of tort. Then, it affirmed international jurisdiction of Japanese courts on the basis that the appellee had sent a written warning to the appellant's clients in Japan. Therefore, the scope of the idea adopted in this judgment needs to be further studied in the future, such as whether or not

international jurisdiction will be affirmed for a place where the information can be viewed when information that injures one's reputation or infringes one's copyright is uploaded on the Internet.

3 Examination of issues related to IP infringement in cyberspace

(1) Examination of cyberspace cases in Europe

One of the recent judgments related to cyberspace in Europe is the judgment by the Hamburg District Court of Germany on a demand for an injunction against use of a German trademark and a community trademark. In this judgment, the court affirmed international jurisdiction for German courts on the basis that the *place where the harmful event occurred* under Article 5.3 of the Brussels Convention was, in the case of infringement of a mark via the Internet, any place from which one can access the website in question. Next, the court applied the German law based on a decision to apply the law of the country in which protection was sought with respect to said domain, which was decisive in the IPR infringement. Then, the court held that, if the person were found to infringe a mark merely by uploading that mark to a website and making it accessible to anyone, and if the act would establish the domestic linkage to all the places that are accessible to the website, it could give unlimited protection for the mark on the Internet; thus, determination should be made with an effort to comprehensively weigh the overall interests in individual cases. After examining whether or not the website was intended for reaching consumers in Germany from the perspectives of the accessibility of products or services in Germany, the intention of the infringer, the language used, the content of advertisements, and the top-level domain, the court denied the domestic linkage of the act.

Another judgment is one related to an act of tort committed in a remote place. The patent relating to this case was a U.K. patent on an interactive system of authorized gambling controlled by a computer. The court judged whether an act of a third party setting up a host computer in Netherlands Antilles and operating said system to provide a program to customers in the United Kingdom constituted indirect infringement under the U.K. patent law. The court comprehended the system as a whole by focusing on the fact that U.K. customers, who were the actual users of the claimed system, were using the host computer through their terminals in the United Kingdom, instead of focusing on the location of the host computer. In this case, no discussions were made as to international jurisdiction or applicable law, but the dispute solely focused on the interpretation of

Section 60(2) of the U.K. Patents Act, which provided for indirect infringement. Nevertheless, the above interpretation is also likely to affect the interpretation of Section 60(1) of the Act, which provides for direct infringement, and, in this case, the act of those who enjoyed gambling would be deemed as direct infringement.

(2) Examination of cyberspace cases in the United States

One of the new problems related to cyberspace is the risk of litigation concerning a license style called general public license (GPL), which obligates the licensee to allow third parties who are his subsequent licensees to subsequent licensees to reproduce, alter, and distribute the product deriving from the licensee's reproduction, alteration, and distribution of the licensed open source software, while the developer of the software still retains the copyright for the software. Such litigation has actually occurred in reality. The question of whether a company that has altered open source software based on a GPL by exerting labor and costs so as to customize it in accordance with the specifications of its own products would be liable to license the altered software to third parties under the GPL and be liable to make its source code public would depend on whether the altered software corresponds to a derivative of the unaltered software. However, the standards for determining a product to be a derivative are not technically clear. Also from a legal perspective, indication has been made that it is difficult to decide the law applicable to the copyright that arises from a GPL or to a contract in the form of a GPL. Accordingly, further study would be necessary in the future.

4 Rules on recognition and enforcement of foreign judgments in Japan, the United States, and Europe (comparative study)

Some of the distinctive differences between the United States, the United Kingdom, Germany, France and Japan are as follows. An injunction ordered by a foreign court is never directly enforced in the United States. Moreover, a judgment ordering a specific performance or an injunction are not recognized in the United Kingdom, so a foreign court's judgment ordering an injunction against IPR infringement is not recognized or enforced in the United Kingdom. The plaintiff would have to file an action demanding an injunction once again with a U.K. court. On the other hand, Japan and Germany recognize and enforce a foreign courts' order on a specific performance or an injunction. Thus, study should be made on this situation including whether or not the seemingly generous treatment by Japan and Germany is appropriate.

The United States does not recognize a judgment by a foreign court that does not have personal jurisdiction over the defendant according to

the law of the country of that court, which complies with the due process standards. In addition, the United States definitely does not recognize a foreign judgment on a title to land within the United States or on the validity of a U.S. patent if the court that rendered the judgment does not have subject matter jurisdiction. Also in the United Kingdom, a foreign judgment is not recognized when the court that rendered the judgment does not have jurisdiction over the judgment debtor in light of the U.K. law. In Germany, a foreign judgment is recognized when the court that rendered the judgment is found to have jurisdiction under the jurisdiction rules of the German law (mirror-image rule). A foreign judgment on a matter for which a German court has exclusive jurisdiction is not recognized in Germany. In France, the foreign court needs to have jurisdiction both under the law of the country of the court (domestic jurisdiction) and French private international law (international jurisdiction).

In general, the United Kingdom and the United States determine the recognition based on their own standards, while Japan and Germany determine it based on the standards of the country that rendered the judgment, and the latter countries seem to be more generous to foreign judgments. However, when there is a conflict in judgments, Germany and France clearly give priority to their domestic judgment, while the United States and the United Kingdom have no prioritization rule in particular. Therefore, further study is also anticipated for the rules on recognition and enforcement of foreign judgments in the IPR field.

5 Results of an overseas survey on the rules of international jurisdiction, applicable law and recognition and enforcement of foreign judgments for IP litigation

In Europe, which has established regional rules, there have been an accumulating number of court judgments that affirmed jurisdiction over litigation on IPR infringement arising on the Internet based on the accessibility to the website in question, with regard to the jurisdiction of the place of tort in Article 5.3 of the Brussels Convention. In addition, the spider in the web doctrine on jurisdiction over litigation involving multiple defendants could be applied throughout Europe if the European Court of Justice renders an affirmative decision.

As for Asian countries, China has its own rules. For instance, generally, jurisdiction is in the people's court of the domicile or habitual residence of the defendant, and if the defendant does not reside within China, the domicile or habitual residence of the plaintiff. Meanwhile, a people's court of China has jurisdiction over litigation concerning a contract of a joint venture between a Chinese and a foreign company, irrespective of the jurisdiction by

agreement. In South Korea, there was a case where the court only affirmed part of the damages for a claim to enforce a foreign judgment that had affirmed a claim for damages related to an IPR. Furthermore, the Supreme People's Court of China has indicated a public view that it will not recognize or enforce judgments of Japanese courts because the two countries have not joined any convention, nor do they have a reciprocal agreement regarding mutual recognition and enforcement of judgments. Asian countries have been legislating laws one after another, particularly in this field, in recent years.

IV Handling of Foreign Patents for Employees' Inventions

1 Problems concerning employees' inventions under private international law

There was a clear difference between the judgment in the first instance of the Hitachi case and the judgments in the second instance of the same case and in the Ajinomoto case. While the former held that the issue of the transfer of the rights for an employee's invention and the remuneration for such transfer should be regulated by the law of the respective countries based on the principle of territoriality, the latter held that it should be regulated by the law applicable to the transfer agreement or the employment agreement between the employer and the employee, instead of adopting the principle of territoriality.

According to the Supreme Court judgments in the BBS case and the card reader case, the principle of territoriality can be defined as follows: (i) a patent right of a country is stipulated under the law of the country as to its establishment, transfer, effects, and other aspects; and (ii) the patent right is only effective within the territory of the country. The attribution of the right to obtain a patent for an employee's invention, the question of whether the rights can be transferred, and if they can be transferred, the requirements for the transfer, are included in (i) above. A country's industrial policy that is involved in the legal relations of an employee's invention is not relevant to all of the employees' inventions filed or patented in that country, but only to those that are invented within that country. In other words, an employee's invention has small relevance in such terms with those countries with which the invention was filed other than the country in which the invention was made. Therefore, it would be desirable to interpret such a case to be outside the scope of the principle of territoriality and to decide the applicable law in such a way that applications in multiple countries can be regulated in a uniform manner. In this respect, the judgment in the second instance of the

Hitachi case and that in the Ajinomoto case are supported.

The legal relations of an employee's invention can be divided into several issues, such as attribution and transfer of rights including the right to obtain a patent, a license for the invention, and remuneration for the transfer of the rights. Since these issues are adjusting the interests between the employer and the employee by being closely related with each other, it would be appropriate to adopt the same applicable law for all of these issues. In addition, there is a possibility that a foreign law will be applied to the legal relations of an employee's invention by the parties' choice under Article 7(1) of the Law on the Application of Laws. However, if the outcome of applying the foreign law of the parties' choice to an employee's invention that was made in Japan unreasonably harms the interest of the employee as compared to the outcome of applying Section 35 of the Japanese Patent Law, the foreign law will not be applied to the invention as being against the public order and morality under Article 33 of the Law on the Application of Laws. The autonomy of the parties is not likely to be allowed when the applicable law is decided by logical reason, or when Section 35 of the Patent Law is construed as an absolutely mandatory provision, instead of by Article 7 of the Law on the Application of Laws. Thus, the appropriateness of always not allowing the autonomy of the parties in such cases needs to be examined further.

2 International application of Section 35 of the Japanese Patent Law

The distinction between private law and public law, which is relevant to deciding the quality of legal relations under private international law, is independently determined based on the extent of interest of the country, extent of the nature of public authority, and extent of the mandatory nature of the law, solely from the viewpoint of deciding international application of the law. Accordingly, the determination is relative and ambiguous, leading to a different outcome depending on the country and the time.

The quality of legal relations concerning IPRs, particularly patents, is construed in various manners. For instance, Section 35(3) of the Japanese Patent Law is construed in the following three ways: (i) a provision stipulating special rules on the law of contract when an employee's invention is transferred between the employer and the employee (private law); (ii) an understanding that it is an issue of high interest to the country, which could affect the industrial policy of the country (public law); and (iii) a provision for protecting

workers, which protects the rights of employees who are inevitably placed in a weaker position compared to the employer (public law).

In light of the above interpretations, the judgment in the first instance of the Hitachi case corresponds to type (ii), concluding that the principle of territoriality is reasonable, by understanding the issue to be purely related to the industrial policy, similar to such issues as establishment, transfer, and effects of a patent. In contrast, the judgment in the second instance of the Hitachi case and the one in the Ajinomoto case correspond to type (i) or (iii), concluding that the applicable law can be agreed upon between the employer and the employee based on Article 7(1) of the Law on the Application of Laws, by understanding the provision to be one that stipulates special rules on the law of contract when an employee's invention is transferred between the employer and the employee. Nevertheless, possibly due to the problem involved the idea of (i) that the employer can easily avoid application of the Japanese law by contract, the judgment in the second instance of the Hitachi case added as follows: if Article 7 of the Law on the Application of Laws is not applied, the applicable law should be decided by logical reason; the reasonable decision would be to apply the law of the country that is most closely related to the employment relationship between the employer and the employee. This aspect of eliminating the autonomy of the parties is actually closer to (iii). In this manner, the confusion that still exists in understanding the nature of Section 35(3) of the Patent Law clearly has an influence on the difference in the rules of international application of the provision. If this provision is public law or an absolute mandatory provision, the portion on selecting an applicable law would hardly have any meaning; therefore, it would also be necessary to make clear the real ground for selecting an applicable law.

V Conclusion

The importance of formulating rules for regulating various problems surrounding IPRs under private international law is widely recognized, whether they are international, regional, or national rules. At the same time, views are diverse as to the categories and the qualification of legal relations involved in these rules. It is also hoped that Japan will actively participate in rule-making attempts by comprehending the new approaches and ideas in Japan and abroad that are examined in this report.

Appendix

In the report, Appendix I contains the latest draft Hague Convention and various organizations' comments on it, as well as the latest texts of IPR-specific rules of the AIPPI, the ALI, and the MPI. Appendix II contains the laws and regulations of the respective countries, a list of court judgments, and a list of references, mainly on those that are mentioned in the report.

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