19 International Jurisdiction and Governing Law for International Conflicts over Employee Inventions and Works Made for Hire(*)

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The report of this study reviews the treatment of international conflicts over employee inventions and works made for hire under new rules concerning international jurisdiction and governing laws. Currently, there are no provisions under statutory laws concerning international jurisdiction in Japan. The international jurisdiction legislation has been reviewed by the legislative council of the Ministry of Justice since October 2008 under the need to develop provisions on international jurisdiction. In February 2010, an Outline on Development of the International Jurisdiction Act was announced. With regard to the governing law, the Act on General Rules for the Application of Laws came into effect on January 1, 2007 in lieu of the former Horei (Act on application of law (Act No.10 of 1898)). Neither the Outline on Development of the International Jurisdiction Act nor the Act on General Rules for the Application of Laws have stipulated special rules for employee inventions and works made for hire. Therefore, these issues are left to be construed as in the past. However, it is necessary to consider whether conventional understandings apply directly under the new rules, because both the Outline on Development of the International Jurisdiction Act and the Act on General Rules for the Application of Laws have adopted special provisions concerning labor relationships so that they may have an impact on the treatment of conflicts over employee inventions and works made for hire that arise between parties who are in a labor relationship or who were in a similar relationship. In the report of this study, past settlements are reviewed in order, starting with employee inventions and works made for hire and are compared with settlements under new rules. I would thereby like to clarify what changes the Outline on Development of the International Jurisdiction Act and the Act on General Rules for the Application of Laws will bring to the treatment of international conflicts over employee inventions and works made for hire.

Ⅰ Introduction

This research aims to review the treatment of international conflicts over employee inventions and works made for hire under new rules concerning international jurisdiction and governing laws.

With regard to cases solely in Japan, Japanese courts judge them by applying Japanese laws. In contrast, with regard to the legal treatment of international cases, a problem has arisen over which country's court has jurisdiction (international jurisdiction) and which country's laws will be applied by the court that has jurisdiction (governing law).

Recently, movements to introduce new rules have been seen with regard to both international jurisdiction and governing law. Currently, there are no provisions under statutory laws concerning international jurisdiction in Japan. In practice, the first step is to examine whether a forum can be found in Japan in light of the territorial jurisdictions under the Code of Civil Procedure. If a forum is found in Japan, then it must be determined whether there are "special circumstances" to deny the international jurisdiction. This is the way that international jurisdiction is determined. Certain rules have been molded by the accumulation of judicial precedents; however, depending only on the rules of judicial precedents is unclear and cannot be considered to have high level of predictability. The international jurisdiction legislation has been reviewed by the legislative council of the Ministry of Justice since October 2008 under the need to develop provisions on international jurisdiction. In February 2010, an "Outline on Development of the International Jurisdiction Act" (hereinafter referred to as the "Outline" in this report) was announced. With regard to the governing law, the "Act on General Rules for the Application of Laws" (hereinafter referred to as

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the “General Rules” in this report) came into effect in place of the former *Horei* since January 2007.

Neither the Outline nor the General Rules have stipulated special rules for employee inventions and works made for hire. Therefore, these issues are left to be construed as in the past. However, it is necessary to consider whether conventional understandings apply directly under the new rules, because both the Outline and the General Rules have adopted special provisions concerning labor relationships so that they may have an impact on the treatment of conflicts over employee inventions and works made for hire that arise between parties who are in a labor relationship or who were in a similar relationship.

In the following sections, past settlements are reviewed in order, starting with employee inventions (Chapter II) and works made for hire (Chapter III) and are compared with settlements under new rules. I would thereby like to clarify what changes the Outline and the General Rules will bring to the treatment of international conflicts over employee inventions and works made for hire.

Ⅱ Employee Inventions

1 International Jurisdiction

As an example, the decision over international jurisdiction comes into question in the following case:

[Example 1]
X (An English employee)
Y (A pharmaceutical company with its headquarters in the United Kingdom)
Z (Y’s research institute in Japan)

X, a citizen of the U.K., has engaged in research and development on drugs at the research institute located in Japan of pharmaceutical company Y, which has its headquarters in the U.K. In the employment contract between X and Y, there was an agreement stating that the governing law was the laws of the U.K. and that actions could only be filed only at the court in the U.K. in cases where a conflict arose. X disclosed to Y technical information about the ingredients of drugs that were developed by X and Y, who had this technical information, obtained patent rights in Japan, the U.K., and the United States of America respectively. After X retired from Y, X claimed 100 million yen as a reasonable value for his employee inventions based on Article 35 of the Patent Act, at a court in Japan.

Does a Japanese court have jurisdiction over this claim?

(1) Settlement by the rule of judicial precedents

There are no judicial precedents that judged international jurisdiction over an employee invention conflict. A conflict over an employee invention has two aspects, an intellectual property rights conflict and a labor relationship conflict. Each type of conflict has been settled in accordance with the rules of judicial precedents that find international jurisdiction in Japan unless there are “special circumstances” to deny international jurisdiction in cases where territorial jurisdiction is found in Japan, in light of the provisions on territorial jurisdiction provided for by the Code of Civil Procedure.

How is [Example 1] settled under the rules of judicial precedents? When a worker understands the content of the contract and the contents of the agreement are not considerably unreasonable, there is the possibility that the agreement on exclusive jurisdiction, which only allows filing an action only in a U.K. court, will be found to be effective. If the agreement on jurisdiction is found to be ineffective, international jurisdiction is found in Japan if grounds for jurisdiction exist in Japan. Since research institute Z is in Japan, it is considered that the place of business or business office is in Japan (Article 5, item (v) of the Code of Civil Procedure) and jurisdiction is found in Japan unless there are “special circumstances” to deny international jurisdiction.

(2) Outline on Development of the International Jurisdiction Act

The Outline on Development of the International Jurisdiction Act has no special rules concerning international jurisdiction for conflicts over employee inventions. Jurisdiction over an action concerning the existence or effectiveness of intellectual property rights registered in Japan shall be exclusive to Japanese courts (Article 3, (iii) of the Outline). In cases where jurisdiction is not exclusive to a Japanese court, when the grounds for jurisdiction exist in Japan, a court in Japan has jurisdiction.

The Outline finds that there is also jurisdiction, which the Code of Civil Procedure approves for cases in Japan, over international cases and has established special provisions for actions on labor relationship for which there are no special provisions with respect to jurisdiction

in Japan. According to Article 2-11, item (i) of the Outline, in cases where a worker sues his/her employer, it is required that a court in Japan shall have jurisdiction if the place where his/her work is performed (if the place is not specified, the place of business where the worker has been employed) is in Japan. Article 5-1, item (vi) of the Outline restricts the effectiveness of agreements on jurisdiction subject to civil conflicts over individual labor relationships that may occur in the future. Under the Outline, even if there is an agreement on exclusive jurisdiction that allows the filing of an action only in the court of a specified country, a worker may file an action in a court in a country other than the specified country. For workers, the agreement on jurisdiction means an additional agreement.

(3) Summary

The following two points are listed as differences between the rules of judicial precedents and the Outline. First, when a worker files an action against his/her employer, jurisdiction is found when the place where his/her work is performed (if the place is not specified, the place of business where the worker has been employed) is in Japan. Second, an agreement on jurisdiction for civil conflicts over individual labor relationships means an additional agreement for workers. Workers can file an action in a court in a country other than the one that has been agreed.

If [Example 1] is settled under the Outline, workers may file an action in a country other than in the U.K., even though there is an agreement on exclusive jurisdiction that only allows filing an action in a U.K. court. Since the place where the work is performed, the place of business or the business office is in Japan, jurisdiction will be found in Japan.

2 Governing Law

If a court in Japan has jurisdiction, which country's law should the court in Japan apply to judge the case? As an example, the choice of the governing law comes into question in the following case:

[Example 2]
X (An English employee)
Y (A pharmaceutical company with its headquarters in the U.K.)
Z (Y's research institute in Japan)

X, a citizen of the U.K. has engaged in drug research and development at a research institute in Japan for pharmaceutical company Y, which has its headquarters in the U.K. In the employment contract between X and Y, there was an agreement on exclusive jurisdiction that the governing law was the laws of the U.K. and that an action could only be filed only at a U.K. court in cases where a conflict arose. X disclosed to Y technical information about the ingredients of drugs that were developed by X and Y, who had this technical information, obtained patent rights in Japan, the U.K., and the U.S.A. respectively. After X retired from Y, X made a claim before a court in Japan to transfer registration of a part of the Japanese patent rights (joint ownership) as his main claim since the right to obtain a patent for the invention in question initially belonged to X who is the inventor and is not succeeded by the company. X also made a preliminary claim for 100 million yen as a reasonable value for employee invention based on Article 35 of the Patent Act, if the right to obtain the patent for the invention in question is succeeded by Y.

If international jurisdiction is found to be in Japan with respect to this claim, which country's law is applied to judge the main claim and the preliminary claim respectively? When Japanese law is applied to the preliminary claim, are the rights subject to the succession to rights prescribed in Article 35 of the Patent Act and the value of the claim limited to the rights in Japan, or do the rights include rights in foreign countries to be settled together?

In the following sections, after reviewing the system under the laws and regulations in (1), a settlement by the *Horei* in (2), and a settlement by the General Rules are examined, and thenthe impact of the modifications made from the *Horei* to the General Rules for the method of determining the governing law will be reviewed in (3).

(1) System under the laws and regulations

The employee invention system can be viewed as comprising three elements: (i) initial ownership, (ii) transfer of rights, and (iii) monetary compensation. (i) The right that arises when an invention is completed is called the "right to obtain a patent," and initially belongs to the inventor, who is a natural person, under Japanese laws (Article 29 of the Patent Act, inventor system). There are countries like Japan that consider the right initially belongs to the employee (Germany, Korea, the U.S.A., Canada, Australia, etc.), and countries that consider the right initially belongs to the employer (the U.K., France, Italy, etc.). (ii) Even if the right initially

belongs to the employee, the employer may acquire the rights from the employee. Under Japanese laws, in addition to statutory non-exclusive licenses (without charge) (Article 35, paragraph (1) of the Patent Act), employers may prescribe the succession of rights in advance by an agreement, employment regulations, etc. (Article 35, paragraph (2) of the Patent Act). In countries where the right initially belongs to the employee, there are systems to have an employer to obtain the right without concluding an individual agreement with the employee (Germany) or without clear indication of an agreement with the employee (the U.S.A.). (iii) An employee who has actually made the invention may obtain the right to claim monetary compensation in return for the right that belongs to his/her employer. In order to protect employees who are in subordinate positions in terms of information and bargaining power, Japanese law stipulates that the value to be received by an employee must be reasonable (Article 35, paragraph (3) of the Patent Act), and there are special rules concerning the way to determine reasonable value (Article 35, paragraphs (4) and (5) of the Patent Act). Among foreign countries, there are some countries like Japan that stipulate that an employee may claim value for the invention (Italy), some countries that stipulate that an employee may receive additional rewards (France), and some countries that provide for an employee only receiving monetary compensation for special inventions, such as those that generate enormous profit (Austria, Spain, the U.K.).

As mentioned above, the content of the employee invention system varies by country. Therefore, the results of court judgments may differ depending on which country's law is applied in international cases. With regard to the way to determine the governing law for employee inventions, I would first like to review settlements based on the *Horei*.

(2) Settlements based on the *Horei*

The issues subject to the decision of the governing law under the *Horei* are the succession of the right to obtain foreign patents and its value. It has been discussed whether the provisions of Japanese laws, particularly former Article 35, paragraphs (3) and (4) of the Patent Act, apply to them, and, if these provisions are applied, whether the "right to obtain a patent" prescribed in former Article 35, paragraphs (3) and (4) of the Patent Act includes the right to obtain a foreign patent. Under the *Horei*, theories and judicial precedents are roughly categorized into two standpoints: the standpoint based on *lex protectionis* (the laws of the country where the right is required to be protected by law) and the standpoint based on the governing law of an agreement in (i). This argument was supposedly settled by the judgment of the Supreme Court in 2006 in (ii).

(i) Theories and judicial precedents

The theories and judicial precedents under the *Horei* can be classified into two theories: (a) the theory of *lex protectionis* and (b) the theory of the governing law of an agreement. According to (a) the theory of *lex protectionis*, the laws of a country where a right is required to be protected in the respective territory, such as applying Japanese laws to rights in Japan and the laws of the U.S.A. to rights in the U.S.A. Therefore, the right subject to application of Article 35 of the Japanese Patent Act is limited to the right to obtain a Japanese patent (Judgment of Tokyo District Court on November 29, 2002(*1), etc.). On the contrary, (b) the theory of the governing law of an agreement distinguishes legal relationships like the requirements to make a succession of rights effective, the requirement of its perfection, etc., from legal relationships like the establishment and effectiveness of transfer agreements, the existence of claims for value, etc. This theory considers that *lex protectionis* applies to the former legal relationships and the governing law of an agreement that is determined by Article 7 of the *Horei* applies to the latter legal relationships. The following opinions were also compelling: an opinion that is not based on Article 7 of the *Horei*, but logic and considers the governing law to be the law of the country which has the closest connection to the employment relationship between employer and worker (judgment of the Tokyo High Court on January 29, 2004(*2)); or the opinion that the provisions of former Article 35, paragraphs (3) and (4) of the Patent Act shall be applied directly as internationally mandatory provisions (judgment of Tokyo District Court on Feb. 24, 2004(*3)). With regard to the theory of the governing law of an

(*1) H10(wa)16832, Hanrei Jiho No.1807, p.33 [the Hitachi Case, the first Instance].
(*2) H14(ne)6451, Hanrei Jiho No.1848, p.25 [the Hitachi Case, the second Instance].
(*3) H14(wa)20521, Hanrei Jiho No.1853, p.38 [Ajinomoto Case].

agreement, opinions were divided on the issue of whether the succession of rights, including the right to obtain a foreign patent, and their value are treated uniformly by Article 35, paragraphs (3) and (4) of the former Patent Act.

(ii) Judgment of the Supreme Court in 2006

The judgment of the Supreme Court in 2006(*4) is considered to have adopted the theory of the governing law of an agreement with respect to the governing law for the "transfer and value of the right to obtain a foreign patent." With regard to the issue of whether the rights, including the right to obtain a foreign patent, are treated uniformly by former Article 35, paragraphs (3) and (4) of the Patent Act, the Supreme Court judged and affirmed that former Article 35, paragraphs (3) and (4) of the Patent Act are applied analogically to the right to obtain a foreign patent. Subsequent judicial precedents follow the judgment of the Supreme Court in 2006.

Given the decision made by the judgment of the Supreme Court in 2006, how is [Example 2] settled? It is not clear from the gist of the judgment whether ownership of the right to obtain a patent, which is a premise of the main claim, the transfer of registration of the patent right, is decided by the governing law of an agreement or by *lex protectionis*. With regard to the preliminary claim, the transfer of and monetary compensation for the rights pertaining to the employee's invention, the governing law of the agreement that is specified by Article 7 of the *Horei* will apply. If U.K. laws are determined to be the governing law by presuming the party's implied intention to select U.K. laws, Article 35 of the Japanese Patent Act does not apply in principle. Under Article 40 of the Patent Act of the U.K., the employee cannot receive monetary compensation if he/she habitually works outside the territory of the U.K. Therefore, the employee cannot receive monetary compensation unless the result of application of U.K. law is contrary to the public order or Article 35, paragraph (3) and thereafter of the Patent Act is applied directly as an internationally mandatory provision.

Are the abovementioned settlements under the *Horei* changed by the modification from the *Horei* to the General Rules? Next, settlements under the General Rules will be examined.

(3) Settlements under the Act on General Rules for the Application of Laws

The General Rules have no special rules concerning employee inventions so that the decision of the governing law is still left to be construed. What impact will be given by the newly established provisions for infringement, which favor protecting workers, to the treatment of conflicts over employee inventions? In the following paragraphs, the provisions of Article 12 are analyzed from the perspective of legal relationships and laws subject to the provision in (i) and then, the way in which the scope of the judgment of the Supreme Court in 2006 is construed in the framework of the General Rules will be examined in (ii).

(i) Changes by the modification of the law

(a) Legal relationships subject to Article 12

The "labor contract" that is subject to the application of Article 12 of the General Rules is considered to mean a concept including both labor contacts and employment contracts under the Civil Code. The component for "the provision of work under instruction or order of an employer" that is considered to be common to labor contracts and employment contracts is a core component of the "labor contract" subject to the application of Article 12 of the General Rules. The "labor contract" that is subject to the application of Article 12 of the General Rules can be defined as a "contract to provide work under instruction or order of an employer" because there are disparities in information and bargaining power between the parties in said relationship and the freedom of parties to select the governing law actually means the freedom of an employer to select the governing law.

(b) Mandatory provisions subject to Article 12

The "mandatory provisions" prescribed in Article 12 should be distinguished from internationally mandatory provisions. The "mandatory provisions" set forth in Article 12 are applied only after a worker's invocation, while internationally mandatory provisions are applied by the authority of judges. Therefore their legal effects under the conflict-of-laws are different. They are basically distinguished by the provision's nature and purpose. In addition, two perspectives, that is to say, legal effects under the conflict-of-laws, in other words, the way to apply said provisions, and the scope of the territorial applications inherent in the provisions

(*4) Judgment of the Supreme Court on October 17, 2006, H16(Ju)781, Minshu Vol.60, No.8, p.2853.

are important for the distinction.

(ii) Evaluation of the judgment of the Supreme Court in 2006

(a) The way to determine the governing law under the General Rules

The judgment of the Supreme Court in 2006 regarded the succession of the right to obtain a patent and its value as an issue of a "transfer contract" and decided that the governing law that is determined by Article 7 of the *Horei* applies. However, it is not considered that the characterization of a "transfer contract" also applies in the framework of the General Rules. Under the General Rules, it is construed that Article 12 applies as a labor contract issue.

An employee invention is characterized as the succession of the patent right; however, it has different characteristics from a simple transfer. This is because an employee invention intends to secure a certain amount of compensation for an employee with respect to the invention performed in the course of his/her duty in return for which the employer acquires the right, in light of the difficulties of balancing negotiations between employee and employer. This should be regarded as an issue of the adjustment of interests between parties who are in a labor relationship and should be treated as a labor relationship. From the perspective of comparative law, there are many opinions mainly in Europe that support the characterization as a labor contract. In addition, Article 35, paragraph (3) and thereafter of the Patent Act cannot be regarded as internationally mandatory provisions. It is construed that they apply only in the framework of Article 12 of the General Rules.

(b) Scope of the governing law of an agreement

According to the judgment of the Supreme Court in 2006, it is not clear from the gist of the judgment whether the scope of the governing law of an agreement affects the decision of initial ownership of the right to obtain a patent. The opinion that the governing law of an agreement applies to this issue is also popular. However, considering that the right to obtain a patent has two aspects: the aspect of a private right that is the substantive right to enable licensing, profit-making, transfer, etc.; and the aspect of a public right that is the right to request an administrative disposition from the national government to grant a patent, it is considered that the initial ownership related to the latter aspect should be governed by *lex protectionis*.

(4) Summary

Under the General Rules, it is considered that a contract, which are grounds for a transfer, and other legal acts related to credit obligations among the transfer of the right to obtain a foreign patent and its value are regarded as a "labor contract" and the provisions of Article 12 are applied. It is construed that Article 35, paragraph (3) and thereafter of the Patent Act are applied in the framework of Article 12 of the General Rules. Consequently, even if a foreign law is selected as a governing law, an employee may request the application of Article 35, paragraph (3) and thereafter of the Patent Act as long as Japan is the place most closely connected to the contract. It is considered that initial ownership of the right to obtain a patent is not included in the scope of the governing law of an agreement.

How, then, is [Example 2] settled under the General Rules? First, initial ownership of the right to obtain a patent, which is a premise of the main claim, the transfer of registration, etc. of a part of the Japanese patent right (joint ownership), will be determined by *lex protectionis*. Therefore, it is judged that the right to obtain a Japanese patent initially belongs to an employee pursuant to Japanese law, the right to obtain a U.K. patent initially belongs to an employer pursuant to U.K. law, and the right to obtain a U.S.A. patent initially belongs to an employee pursuant to U.S.A. law. The transfer of the rights pertaining to an employee invention and monetary compensation, which are the preliminary claims, should be under the governing law of an agreement. With regard to [Example 2], since U.K. law is the governing law of the labor contract, if the law of Japan where the work is performed is the law of the place most closely connected to the contract, it is considered that the employee can request the application of Article 35, paragraph (3) and thereafter of the Patent Act of Japan under Article 12 of the General Rules.

Ⅲ Works Made for Hire

1 International jurisdiction

As an example, international jurisdiction over works made for hire comes into question in the following case:

[Example 3]

X (A person of nationality of the U.S.A.)

Y (A Japanese company)

A U.S.A. citizen X concluded an employment

contract with a Japanese company Y and created drawings as characters for an animation movie that was planned by Y. Y produced the movie using the drawings in question and distributed it to American companies. The movie was also screened in Japan; however, the name of X was not displayed in said movie as the author of the drawings in question. In the employment contract between X and Y, there was an agreement that the governing law was the law of California State in the U.S.A. and an action can be filed only in a court in California State in the U.S.A. in case of conflict.

X sought an injunction against distribution of the animation movie that was produced by using the drawings in question and claimed compensation for damages against Y, based on the copyright and moral rights of the author, since X claimed that the author of the drawings was X. In response to this, Y alleged that the drawings in question were created based on the employment contract and therefore fell under works made for hire as prescribed in Article 15 of the Copyright Act.

Does the Japanese court have jurisdiction over the claim in this case?

(1) Settlement by rules based on judicial precedents

International jurisdiction for conflicts over labor relationships and conflicts over intellectual property rights has been determined in accordance with rules based on judicial precedents. International jurisdiction over injunctions and compensation for damages based on the infringement of intellectual property rights is determined to consider that these claims fall under claims concerning torts as prescribed in Article 9, item (v) of the Code of Civil Procedure.

With regard to [Example 2], since the place of the torts is Japan, international jurisdiction is found with a court in Japan unless there are "special circumstances" to deny the jurisdiction of Japan.

(2) Outline on Development of the International Jurisdiction Act

With regard to an action for infringement of intellectual property rights, the Outline has no special rules. The injunction on the grounds of an infringement of intellectual property rights is also regarded as an "action for torts," and Article 2-6 of the Outline applies. In cases where a worker is the plaintiff, rules concerning claims over labor relationships are also applied with other grounds for jurisdiction. When an injunction or compensation for damages based on infringement of a copyright is brought to a court between an employer and employee, it is regarded as a claim for torts and jurisdiction is found to be with the place of the torts and it is also regarded as a claim concerning the labor relationship and jurisdiction is found to be with the place where the work is performed.

(3) Summary

The Outline has no provisions on lawsuits over the infringement of intellectual property rights. As well as rules based on judicial precedents, the lawsuit is regarded as a "claim for torts" and if the place of the torts is Japan, a Japanese court has jurisdiction. New provisions concerning cases on labor relationships will also have an impact on the treatment of conflict over works made for hire, which is a conflict between an employee and employer.

Under the Outline, how is [Example 3] settled? In [Example 3], an employee may file an action with a court other than the court of California State in the U.S.A., which was agreed in advance. Since both the place where the work was performed and the place of the torts are in Japan, it is considered that a Japanese court has jurisdiction.

2 Governing law

The General Rules have no special provisions concerning the governing law for works made for hire and left this issue to be construed. For instance, the decision of the governing law comes into question in the following case:

[Example 4]

A (A person with German nationality)

X (A Japanese company)

Y (A Japanese company)

A Japanese company X obtained from a German A, who works for a Japanese company, publishing company Y, the copyrights of works related to characters created by A. Y copied and used illustrations of the characters in Y's publications, and sold goods concerning the characters.

X filed an action with a Japanese court seeking an injunction for the copying and compensation for damages, etc. against Y since Y's copying of illustrations, etc. of characters fall under the infringement of copyright. In response

to this action, Y alleged that the characters created by A fall under works made for hire and that all rights, including the moral rights of the author, belong to Y. In addition, there was an agreement that the governing law is German law in the employment agreement between Y and A.

If a court in Japan has international jurisdiction, which country's law should the Japanese court apply in order to judge whether the works created by A, which are the premise of the injunction and compensation for damages, fall under the category of works made for hire?

In the following paragraphs, first, the system under laws and regulations is reviewed in (1). Next, settlement by the *Horei* is reviewed in (2), followed by an examination of settlement by the General Rules; and I would therefore like to clarify the impact of changes from the "*Horei*" to the "General Rules" on the treatment of conflicts over works made for hire in (3).

(1) System under the laws and regulations

Like the employee invention system, if the system for works made for hire is classified into three elements: (i) initial ownership, (ii) transfer of rights, and (iii) monetary compensation, there are only rules concerning (i) initial ownership under Japanese laws (Article 15 of the Copyright Act). Unlike employee inventions, there are no provisions to order payment of monetary compensation to an employee. There are countries like Japan that have a system for works made for hire (the U.S.A., the U.K., Holland, etc.), and countries that maintain principle of the creator (Germany, France, Austria, etc.).

(2) Settlements under the *Horei*

With regard to works made for hire, the appropriateness as works made for hire, or the initial ownership of the right, is subject to the decision of the governing law. Compared with employee inventions, there has been less discussion of theories over the governing law for works made for hire. There is only one judicial precedent that has been made about the issue of the governing law. The arguments over the governing law for works made for hire can be roughly categorized into two standpoints (i) a standpoint based on *lex protectionis*, and (ii) a standpoint based on the governing law of the labor contact (judgment of the Tokyo High Court on May 30, 2001[*5]).

With regard to [Example 4], the decision on the applicable law differs depending on whether *lex protectionis* or the governing law of the labor contract is applied. According to the theory of *lex protectionis*, Japanese laws will be applied. If the requirements prescribed in Article 15 of the Copyright Act are satisfied, works that fall under the category of works made for hire and all of the rights pertaining to the works including the moral rights of the author belong to the company. On the contrary, German law would be applied in accordance with the theory of the governing law of the labor contract. Since German law does not have a system for works made for hire, Japanese copyrights pertaining to works initially belong to the creator X.

(3) Settlement under the Act on General Rules for the Application of Laws

The General Rules have no special provisions on works made for hire. Therefore, the decision of the governing law is left to be construed. If the governing law for works made for hire is the governing law of the labor contract, the introduction of special provisions concerning labor contracts will give changes to the method of determining the governing laws for works made for hire. In order to clarify the impact of the modifications from the *Horei* to the General Rules on the decision of the governing law of the works made for hire, it is necessary to determine whether this issue should be settled by the governing law of the labor contract or *lex protectionis*.

Since ownership of the copyright cannot be separated from the perspective not only of the existence, but also of the content, the theory of *lex protectionis* has been supported traditionally. However, from three perspectives: (i) plurality of works; (ii) absence of publishing and registration, and (iii) form of use of the copyright, it is difficult to agree with the theory of *lex protectionis* that determines the ownership of copyrights in individual countries. The ownership of copyrights in countries should be determined uniformly pursuant to the governing law of the labor contract.

If the governing law for works made for hire is determined to be the governing law of the labor contract, the provisions of Article 12 will be applied in the framework of the General Rules. The protection by mandatory provisions in the

(*5) Judgment of the Supreme Court on October 17, 2006, H16(Ju)781, Minshu Vol.60, No.8, p.2853.

laws of the place that is most closely connected to the contract is guaranteed for workers.

(4) Summary

The initial ownership of copyrights pertaining to works created in the course of employment is construed to be determined pursuant to the governing law of the labor contract. The governing law is determined pursuant to the provisions of Article 12 in the framework of the General Rules. Consequently, the rules to determine the governing law change from Article 7 of the *Horei* to Article 12 of the General Rules by the modification of the law.

How, then, is [Example 4] settled under the General Rules? If German law, which is the governing law of the labor contract, is applied, creator A has initial ownership of the right. However, the most popular opinion is that an employee grants an exclusive agreement on all of the economic rights concerning works to an employer explicitly or implicitly under German law. German law, including these rules, will be applied. When Y acquires the exclusive right to use economic rights, X can make a claim for reasonable value for a license under German law (Article 32a of the Copyright Act). Therefore, Y can receive monetary compensation.

Ⅳ Conclusion

In this study, the treatment of international conflicts over employee inventions and works made for hire was reviewed from the perspective of international jurisdiction and governing law. Since conflicts over employee inventions and works made for hire presume that there is (or was) a labor contract relationship between parties, it is considered that the establishment of new special provisions concerning labor contracts in the Outline and the General Rules also has an impact on the treatment of these two conflicts.

First, with regard to international jurisdiction, the Outline has provisions that decisions on the existence and effectiveness of intellectual property rights requiring registration shall be the exclusive jurisdiction of the country of registration. Therefore, when the transfer of registration of a patent right is claimed in a conflict over an employee invention, exclusive jurisdiction belongs to the country of registration. The Outline does not have provisions concerning contracts for intellectual property rights or the infringement of intellectual property rights. Consequently, as in the past, when the domicile of the defendant etc. is in Japan, Japan has international jurisdiction and the rules concerning labor contracts are also applied.

Next, with regard to the governing law, the General Rules do not have provisions concerning intellectual property rights. In cases of conflicts over employee inventions and works made for hire, it is important to decide whether the conflict should be under the governing law of the labor contract that regulates the relationship between parties of the conflict, or whether the conflict should be under *lex protectionis*, which regulates the subject of the conflict. The General Rules established new special provisions on labor contracts and allow parties to select the governing law, while they guarantee workers protection pursuant to the laws of the place that has the closest connection. The governing law of employee inventions and works made for hire is determined by Article 12 of the General Rules under the General Rules. However, it should be noted that initial ownership of employee inventions is determined by *lex protectionis*, while initial ownership of works made for hire is determined by the governing law of the labor contract.

The analysis of the Outline and arguments over international jurisdiction in Japan and overseas are not reviewed sufficiently with respect in this study due to time limitations. These points will be reviewed in the future.