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INTELLECTUAL PROPERTY RIGHTS,
CONFLICT OF LAWS AND
INTERNATIONAL JURISDICTION:
APPLICABILITY OF ALI PRINCIPLES IN
JAPAN?

Toshiyuki Kono∗

I. INTRODUCTION

The American Legal Institute’s (ALI) recent project, Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes (ALI Principles), provides an important jumping-off point in the discourse on the need for private international law on intellectual property rights (IPR). This paper will consider the applicability of the ALI Principles to the Japanese legal system, specifically whether these principles could, or should, be successfully adopted by Japanese Courts.

Japan, as a civil law country, rules primarily by statute. Both the Japanese Code of Civil Procedure (Code or Civil Procedure Code) and the Code of Private International Law (Hōrei), Japan’s choice of law statute, have been heavily influenced by German law and legal theories. Moreover, the Civil Procedure Code contains only one provision dealing with inter-

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1. AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 2, 2004) [hereinafter ALI PRINCIPLES]. The Brooklyn Law School Symposium focused on Preliminary Draft No. 3, which was made available to the participants in October 2004.
national civil procedure matters, and the Code of Private International Law, currently undergoing reform, contains only thirty-four provisions. Therefore, case law plays a very important role in these fields, as judicial interpretation of these provisions is necessary for a full explication of the law. For example, the Japanese Supreme Court (Supreme Court) recently rendered important interpretative judgments in the fields of international jurisdiction and IPR. Thus, there is good reason to consider the applicability of the ALI Principles, which are designed to be applied by national courts in various countries, in the Japanese system.

II. INTERNATIONAL JURISDICTION OF JAPANESE COURTS AND IPR

A. International Jurisdiction Generally

The Japanese Supreme Court clarified its position on international jurisdiction on October 16, 1981 in *Goto v. Malaysian Airline System* (*Malaysian Airline Case*). In that case, a Japanese national died in a plane crash in Malaysia. The Court relied on the fact that the defendant airline had an office in Tokyo to confirm that Japanese courts had jurisdiction over the dispute under the venue provisions of Article Four of the Code. Article Four at this time provided for jurisdiction wherever the defendant had an establishment. According to the Court, Japan’s international jurisdiction should be determined in accordance with *Jori*, which can be translated as “fairness” or “justice” in English. Thus, the Court created a two-step process for determining whether it had jurisdiction over international disputes, relying on both concepts of fairness, inherent in *Jori*, and the Code. This judgment has been criticized, however, since the

8. *See id.*
Court did not pay attention to the relationship between the case and the forum; the victim purchased his ticket in Malaysia and the office in Tokyo had nothing to do with the transportation contract.

Since this two-step Jori-Code approach was inflexible, some inferior courts added another step, the so-called “special circumstances test.” When special circumstances exist, such that the exercise of jurisdiction by Japanese courts would hamper fairness between parties and hinder the ability of the parties to receive a speedy and fair trial, jurisdiction could be denied. The Supreme Court adopted the “special circumstances” test on November 11, 1997 in Family Co. Ltd. v. Miyahara. Thus, Japan’s highest court has established a three-step framework to determine whether it has jurisdiction over a dispute: (1) Jori; (2) provisions of the Code; (3) the special circumstances test.

The Miyahara decision, and the framework it established, however, was somewhat ambiguous. The Court failed to specify to which provision of the Code it was referring. In other words, the Court skipped the second step of the analysis. Because Jori itself is such an illusory concept, it appears that Japanese courts, in skipping the second step, are relying on only one instrument to create a jurisdictional rule, i.e., the special circumstances test. Since courts have yet to create clear criteria for which elements should be taken into consideration when examining special circumstances, the Court’s ambiguity in creating this three-step analysis could lead to unpredictable results.

B. International Jurisdiction for IPR Disputes and Japanese Case Law

The next question is whether Japanese case law on international jurisdiction is applicable in IPR disputes. Until very recently, Japanese courts did not have the opportunity to make known their stance on international jurisdiction over the infringement of foreign IPR or injunctions. Although the Tokyo District Court could have stated a position on international ju-

10. See generally id.
11. See id. at 118–19.
risdiction in *Nihonmuen Tsushin v. Matsushita Electric*, a Manchurian patent dispute, the Court instead stressed the territorial character of patent law and simply stated that Manchurian patent rights were not protected under Japanese law.12

The Supreme Court's decision in *Fujimoto v. Neuron Co. Ltd. (Card Reader Case)* on September 26, 2002, is more illuminating.13 The main issues before the Court were which laws applied to the infringement of a U.S. patent and whether the Court had the authority to issue an injunction halting the plaintiff's production in Japan.14 However, this decision is still important for our discussion because the Supreme Court did not dismiss the plaintiff's U.S. patent claim, even though it could have held that U.S. courts have exclusive jurisdiction over U.S. patent disputes because of the territorial nature of patents.

In addition, some inferior courts have applied the three-step jurisdiction test in IPR-related cases, such as the Tokyo District Court in both *Ueno Fine Chemical Industry v. The Pharmacia K.K. et al*, on May 14, 200115 and *Yokoyama v. EnterColor Technology Corporation (Ironman Case)* on November 18, 2002.16 In

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12. See generally Nihonmuen Tsushin v. Matsushita Electric, 4 KA MINSHŪ 847 (Tokyo Dist. Ct., June 12, 1953). In 1935, X (Japanese corporation, plaintiff) bought a Japanese patent from A and registered it in 1936. In the same year, X sought to register the patent in Manchuria; it was registered in 1937. B (Japanese corporation) was licensed to use X's Japanese patent and the license was registered in 1937. Z manufactured radios, using B's products, and exported them to Manchuria. X sued Z for damages, arguing that Z infringed on X's Manchurian patent. The Court did not mention jurisdiction and applied Art. 11, para. 2 of the Code of Private International Law (Hōrei), which requires courts to cumulatively apply Japanese law. See generally id. (facts of case simplified by author).


14. See id. at 168–69.

15. See generally Ueno Fine Chemical Industry v. The Pharmacia K.K., 1080 HANREI TAIZU 208 (Tokyo Dist. Ct., May 14, 2001) [hereinafter Ueno Fine Chemicals Case]. The plaintiff, a Japanese pharmaceutical company, sued a Swedish company and its Japanese subsidiary, asserting that these two companies infringed on its Japanese patent. The Tokyo District Court, referring to this three-step test, claimed that it lacked jurisdiction to hear the case because plaintiff did not plead that defendants conducted the tortious act in Japan. See generally id.

16. See generally Yokoyama v. EnterColor Technology Corp. (Ironman Case), 1812 HANREI JIHÖ 139 (Tokyo Dist. Ct., Nov. 18, 2002), 46 JAPANESE
both cases, the Tokyo District Court held that it lacked jurisdiction. However, it became clear that the three-step test will still be used to determine if Japanese courts have jurisdiction in IPR cases. The ALI Principles could be compatible with this three-step test, but such compatibility could be affirmed only by examining each Principle, which is what the following sections do. In any event, an application of the ALI Principles using the facts of these two cases would lead to the same conclusions as those reached by the Tokyo District Court because the claims of these plaintiffs are rather abusive and Japan does not seem to be the appropriate forum.

C. ALI Principles on International Jurisdiction and Japanese Case Law

1. ALI Principle Section 201: Defendant's Forum

Article Four of the Code states that the general forum for defendants is either an individual's domicile or, for entities, their principal place of business. In the Malaysian Airline Case, the plaintiff, Japanese copyright holder of “Iron man,” sued the defendant, who was producing t-shirts in the United States, for injunctive relief and compensatory damages based on the infringement of the plaintiff's U.S. copyright. The Tokyo District Court dismissed the claim because the tort occurred in the United States. See id. at 186–87.


18. ALI PRINCIPLES, supra note 1, § 201. The current version of the provision reads as follows:

(1) A defendant may be sued in the courts of the State where that defendant is habitually resident.

(2) For the purpose of these Principles, an entity or person other than a natural person shall be considered to be habitually resident in the State -

(a) where it has its statutory seat,

(b) under whose law it was incorporated or formed,

(c) where it has its central administration, or

(d) where it has its principal place of business.

Id.

19. MINSOHO, supra note 4, art. 4, para. 2.

20. Id. art. 4, para. 4.
Court adopted this provision of the Code as part of Jori. Strictly speaking, the terms “domicile” in the Code and “habitual residence,” the language adopted by the ALI Principles,\(^\text{21}\) encompass two different legal notions. The interpretation of “domicile,” as used in the Code for domestic cases could, however, be modified to apply to international cases as well. Interpretation of the Code would then be very similar to Section 201 of the ALI Principles.

A recent judgment by the Tokyo District Court in Coral Co. Ltd. v. Marin Bio Co. Ltd. (Coral Powder Case), adopted such a usage of the ALI Principles.\(^\text{22}\) The Court’s decision could be interpreted as an acceptance of Sections 201 and 223(1), which allow parties to seek a declaration of rights in the same action in which they seek substantive relief.\(^\text{23}\) In this U.S. patent case, both the plaintiff and defendant were Japanese corporations. The plaintiff, a manufacturer of coral powder products, sold in both the Japanese and American markets; meanwhile, the defendant, the U.S. patent holder of an invention on the production of coral powder, warned the plaintiff’s American client that plaintiff’s products infringed its U.S. patent.\(^\text{24}\) The plaintiff sought, inter alia, a negative declaratory judgment that the plaintiff’s sale of the coral powder product could not be enjoined. The plaintiff asserted that its products did not fall within the scope of the defendant’s U.S. patent, that the U.S. patent was not valid, and that the sale of the product did not infringe the defendant’s U.S. patent.\(^\text{25}\) The issue was whether Japanese courts had international jurisdiction over negative declaratory judgments.\(^\text{26}\) The Court rejected the defendant’s argument that Japanese courts should not exercise jurisdiction over U.S. patent cases and held that, while territoriality might be considered in determining the applicable law for injunctive relief, it could

\(^{21}\) ALI Principles, supra note 1, § 201.


\(^{23}\) ALI Principles, supra note 1, § 223(1) (“Actions for a declaration of rights may be brought on the same terms as an action seeking substantive relief.”).

\(^{24}\) See Coral Powder Case, supra note 22.

\(^{25}\) See id.

\(^{26}\) See id.
not be used to deny jurisdiction.\footnote{See id.} In applying the \textit{Jori} special circumstances test, the Court stated that the Japanese court has jurisdiction since the defendant has its principal place of business in Japan, which justifies the exercise of jurisdiction of Japanese courts over any kind of claim against the defendant.\footnote{See id. ; MINSOHO, \textit{supra} note 4, art. 4, para. 4.} No special circumstances existed in the case. Applying Section 201 of the ALI Principles would lead to the same conclusion.

2. Section 204: Infringement Actions\footnote{See \textit{id}., supra note 1, § 204. The current version of the provision reads as follows:}

The next question is whether the ALI Principles’ rules on infringement actions are transferable to Japanese courts. Section 204(1)(a) emphasizes “acts” instead of “effects.”\footnote{See \textit{id}., § 204(1).} In Japan, tort actions are generally recognized as providing a jurisdictional basis for domestic cases;\footnote{See MINSOHO, \textit{supra} note 4, art. 5, para. 9.} this tortious ground for jurisdiction becomes part of \textit{Jori} when courts determine jurisdiction in international disputes. Japanese courts have jurisdiction in both the place where the tortious acts occurred and the place where the effects of the acts were felt.\footnote{Hiroshi Takahashi, \textit{in} \textit{KOKUSAISHIHO HANREI HYAKUSEN} [Selected 100 Judgments in the Field of Conflict of Laws] 167 (Yoshiaki Sakurada & Masato Dogauchi eds., 2004) (on file with the author).} Thus, courts may find Section 204 of the ALI Principles too restrictive because it focuses only
on the acts, and not their effects. Nevertheless, as Section 204 applies specifically to IPR disputes, especially in the internet environment, while Japanese law is a kind of general rule, courts may still be receptive to Section 204(1)(a). We should continue our observation of the development of case law in this area.

But would Section 204(1)(b), which states that infringement actions may be brought in “any State to which the alleged infringement was directed,” be acceptable? The Supreme Court’s decision on June 8, 2001 in Tsuburaya Production v. Y (Ultra-
man Case) is illuminative here. Although it is not clear from the opinion whether the Court focused on the act itself or its effects in reaching its decision to allow jurisdiction, if the Court decides to emphasize effects over the act itself, Section 204(1)(b) may not be acceptable to Japanese courts. The facts of this case are as follows: Defendant Y, a Thai national living in Thailand, claimed that he was exclusively licensed to use the copyright of the TV figure “Ultraman” outside of Japan by X, a Japanese company and the copyright holder of Ultraman in Japan. X licensed A, a Japanese company, to make and sell Ultraman products in Southeast Asia. Y then warned A, through a Hong Kong law firm, that the manufacturing of Ultraman products would violate Y’s copyright and license. X sued Y in Japan for, among other things, damages caused by Y’s tortious warnings to A. The Court held that tort actions provide the jurisdictional basis for a case when the elements of a tort claim are objectively present. As the Court stated, “It is clear the disturbance was caused by the Appellee having the warning letter delivered to the companies’ addresses in domestic Japan.”

33. ALI PRINCIPLES, supra note 1, § 204(1)(b).
34. See generally Tsuburaya Productions v. Somporte Saengduencha (Ultra-
35. See Ultraman Case, supra note 34, at 151.
36. See id. at 151–52.
37. See id. at 152.
38. See id.
39. See id. Ultraman Case, supra note 34 (translation by author) (on file with author). For another English translation, see Ultraman Case, supra note
Thus, the Court held that a tort claim was objectively present and claimed jurisdiction over the suit. If one follows the language in the Court's opinion, the Court's requirement of "objectively present" should mean the presence of tortious acts and effects and should exclude subjective factors such as negligence or intention. The place where the tortious acts occurred and the place where the effects of the acts were felt are identical in this case. Simply being the object of tortious acts would perhaps not be sufficient to give courts jurisdiction over a dispute. On the other hand, in Internet-related cases, Japanese courts may decide differently.


Section 206(1)(b) of the ALI Principles prohibits the exercise of jurisdiction on the basis of "the presence or the seizure in that State of intellectual property belonging to the defendant, except where the dispute is directly related to that intellectual property." One of the six claims in the Ultraman Case, a negative declaratory judgment that Y was not the copyright holder in Japan, concerns Section 206(1)(b). The Court held that a Japanese copyright should be deemed located in Japan; thus, the Court had jurisdiction based on the location of assets, even over a negative declaratory judgment on the copyright holder of a Japanese copyright, under Article 5(4) of the Code. Section 206(1)(b) of the ALI Principles would lead to the same conclusion. One problem with the Ultraman Case was that jurisdiction was extended over another core issue, i.e., the identity of the rightful copyright holder outside of Japan, through the

34, at 153 ("It is clear ... there is an objective factual relationship based on the disturbance of the Appellant's business caused by the Appellee having the warning letter delivered to the companies' addresses in domestic Japan.").

40. ALI PRINCIPLES, supra note 1, § 206(1)(b). The current version of the provision reads as follows: "Jurisdiction shall not be exercised by the courts of a State on the basis solely of any of the following: ... the presence or the seizure in that State of intellectual property belonging to the defendant, except where the dispute is directly related to that intellectual property." Id.

41. Id.

42. See Ultraman Case, supra note 34, at 153.

43. Id.

44. See ALI PRINCIPLES, supra note 1, § 206(1)(b).
combination of the negative declaratory judgment and the join-
der of claims. In this way, the restriction of “directly related” in
Section 206(1)(b) could be bypassed.

4. Section 220: Counterclaims and Supplemental Claims

In the *Ultraman Case*, the Supreme Court also affirmed its
jurisdiction over the following four claims: (1) a declaratory
judgment that the contract between X and Y was forged; (2) a
declaratory judgment that X was the copyright holder in Thai-
land; (3) a negative declaratory judgment that Y was not li-
censed to use the work; and (4) an injunction against warning
letters sent by Y with the state ment that Y was the copyright
holder outside of Japan and that doing business with X would
violate Y’s exclusive right. The Court found that these claims
were closely related to the other two claims, compensation of
damages and a negative declaratory judgment on Japanese
copyright, and held, based on the joinder of claims provision in
the Code under Article 7, that it had jurisdiction over them as
well.

If Section 220(1) of the ALI Principles had been applied in the
*Ultraman Case*, what would the outcome be? Section 220(1)
istates:

A court that has jurisdiction to determine a claim under the
Principles also has jurisdiction to determine all claims be-
tween the parties arising out of the transaction or series of
transactions or occurrences on which the original claim is

45. *Id.* § 220. The current version of the provision reads as follows:

(1) A court that has jurisdiction to determine a claim under the Prin-
ciples also has jurisdiction to determine all claims between the par-
ties arising out of the transaction or series of transactions or occur-
rences on which the original claim is based, irrespective of the territ-
orial source of the rights at issue, and irrespective of which party as-
serts them.

(2) A court may decline to exercise jurisdiction over a supplemental
claim unrelated to intellectual property rights if it substantially pre-
dominates over the claims properly within the scope of the Principles.

*Id.*


47. *See id.*
based, irrespective of the territorial source of the rights at issue, and irrespective of which party asserts them.\(^\text{48}\)

The Reporters explain that

[T]his section suggests that where courts have subject matter authority, they should exercise it to permit litigants to assert all their claims arising out of the same transaction or occurrence or series of transactions or occurrences…. Although the general approach of these Principles strongly favors the assertion of transactionally related claims in a single action, they do not go further and require the joinder of claims....\(^\text{49}\)

Section 220(1) excludes the joinder of claims. However, if the results of applying Section 220(1) in the *Ultraman Case* would be the same as those reached by the Supreme Court, Section 220(1), irrespective of the Reporters’ Comments, allows the joinder of claims. If this conclusion does not reflect the Reporters’ intentions, they should modify the language of Section 220(1) accordingly.

5. Section 225: Consolidation of Territorial Claims\(^\text{50}\)

The Supreme Court may be somewhat reluctant to comply with Section 225 of the ALI Principles, which calls for the consolidation of related pending actions in a single forum.\(^\text{51}\) The *Ultraman Case* is illustrative. Y brought suit against X in Thailand, asserting that the Ultraman’s Thai copyright was shared by X and Y.\(^\text{52}\) The Supreme Court mentioned this Thai case in

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\(^\text{48}\) ALI PRINCIPLES, *supra* note 1, § 220(1) (emphasis added).

\(^\text{49}\) ALI PRINCIPLES, *supra* note 1, at 65–67 (Comments and Reporters’ Notes).

\(^\text{50}\) Id. § 225. The current version of sections one and two of the provision read as follows:

(1) Upon the motion of an interested party, or sua sponte, the court first seized, as determined by § 224(6), should consider consolidation of related pending actions and claims in a single forum in order to achieve worldwide resolution of a dispute among multiple litigants.

(2) For the purposes of this section, actions are deemed to be related where, irrespective of the territorial source of the rights and the relief sought, the claims arise out of the same transaction or series of transactions or occurrences.

*Id.*

\(^\text{51}\) *Id.*

\(^\text{52}\) See Ultraman Case, *supra* note 34, at 152.
its decision, but since the Court concluded that the core issue in
the Thai case was different from the action before it, the Court
did not consider it when deciding jurisdiction.\(^{53}\) Although I do
not know the details of the Thai case, Sections 225(1) and (2) of
the ALI Principles seem applicable to these two cases; they
should have been consolidated, unless the Thai procedure had
criminal character. In both the Thai and Japanese suits, the
claims seemed to arise “out of the same transaction or series of
transactions or occurrences,” and should therefore have been
deemed as “related” under Section 225(2) since the origin of the
dispute between X and Y was the license contract relating to X’s
copyright outside of Japan.

III. THE ALI PRINCIPLES ON CHOICE OF LAW ISSUES AND IPR
IN JAPAN

A. Generally

Japanese choice of law rules are contained in a statute enti-
tled Hōrei, promulgated in 1898 and modeled after German
law.\(^{54}\) Thus, Japanese choice of law rules belong to the civil law
system. German choice of law rules have a specific structure;
which law to apply is determined by the type of legal relation-
ship, i.e., whether the action is one in tort or contract, and how
that action is connected to the forum through one or more con-
necting factors, such as where the offensive act occurred or
where the effects of that act arose.\(^{55}\) Under this system, foreign
and domestic laws have equal value, but this equal value is only
given to private foreign and domestic laws, not public, since
public laws, unlike private laws, are promulgated to achieve
specific purposes in each country.\(^{56}\)

Substantive law, which is not applied through choice of law
mechanisms, has been described by European jurists in various
ways, such as \textit{Selbstgerechte Sachnormen} (self-justifying Sub-
stantive Law) or \textit{loi d’application immédiate} (directly applicable

\(^{53}\) See id.

\(^{54}\) See generally Hōrei, supra note 5.

\(^{55}\) Peter Hay, \textit{From Rule-Orientation to "Approach" in German Conflicts
Law The Effect of the 1986 and 1999 Codifications}, 47 \textit{Am. J. Comp. L.} 633,
635, 637 (1999).

\(^{56}\) Id. at 639–40, 646.
Public law is a typical example of this genre. The relevant question, therefore, is whether IP laws, especially patent laws, also belong to this genre because government involvement is common in this area. If this question is answered in the affirmative, choice of law rules would be irrelevant because patent law would be, *a priori*, applicable as substantive law and the impact of the ALI Principles on choice of law would largely diminish.

Additionally, territoriality concerns may obviate the need to explore choice of law rules in the IP arena. When territoriality is emphasized, only one law is applicable. Indeed, most IP lawyers believe that IPR territoriality principles exclude discussion of choice of law issues.

**B. ALI Principles on Applicable Law and Japanese Law**

The Supreme Court, however, has adopted none of these approaches. In fact, the Court held that the territorial nature of IPR would not necessarily prevent choice of law issues from arising in IP disputes. The Court then classified injunction and infringement differently: injunction as the effect of patent and infringement as tort. The Court held that because the Hörei lacks specific provisions regarding the effect of patent, the applicable law, i.e., the law with the closest connection to the concerned legal relationship, should be determined by *Jori*. Thus, the law of the country where the patent is registered should be the applicable law. In this case, it was U.S. law. Under U.S. patent law, Sections 271(b) and (f), both the party responsible for the infringement and the person who induced the infringement overseas are liable. However, according to the Court, Japanese patent law does not recognize the extraterrito-

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59. See generally Card Reader Case, supra note 13 (indicating the Supreme Court’s approach in IP disputes).
60. See id. at 170.
61. See id. at 172–74.
62. See id. at 169.
rrial applicability, and so the policy behind U.S. patent law is too foreign and collides with the fundamental values of Japanese law.\(^{64}\) Therefore, the Court concluded that the application of U.S. patent law would violate Japanese public policy under Article 33 of the Hōrei.\(^{65}\)

For infringements, the Court applied Article 11 of the Hōrei, which states that the law of the place where the tort occurred is applicable.\(^{66}\) However, under Article 11, Japanese law must be cumulatively applied.\(^{67}\) The question is whether the inducing acts conducted abroad would constitute a tort under Japanese law. Since Japanese law lacks provisions or conventions that set aside the territoriality principle, such inducement would not be unlawful. Therefore, it seems that the Supreme Court has abandoned the territoriality principle approach, which excludes conflicts of law mechanisms. In this sense, the Court’s decision was an epoch-making judgment.

C. Section 301: Existence and Scope of Rights and Remedies\(^{68}\)

Under Section 301(1), the law of registration would apply to both patent infringements and remedies.\(^{69}\) If the term “remedies” encompasses not only ex-post, but also ex-ante remedies, it would cover both compensatory damages and injunctive re-

\(^{64}\) See Card Reader Case, \textit{supra} note 13, at 171–72.

\(^{65}\) See \textit{id.}; Hōrei, \textit{supra} note 5, art. 33.

\(^{66}\) Hōrei, \textit{supra} note 5, art. 11.

\(^{67}\) \textit{Id.} art. 11, para. 2.

\(^{68}\) ALI PRINCIPLES, \textit{supra} note 1, § 301. The current version of the provision reads as follows:

(1) As a general rule, with respect to rights that arise out of registration, the law applicable to determine the existence, validity and scope of those rights and remedies for their infringement is the law of each country of registration.

(2) With respect to other intellectual property rights, the law applicable to determine the existence, validity and scope of the intellectual property rights and remedies for their infringement is the law of any country where the alleged infringing act has or will significantly impact the market for the work or subject matter at issue.

(3) With respect to personal rights, the law applicable to determine the existence, validity and scope of the rights and remedies for their violation is the law of the country where the damage occurred.

\textit{Id.}

\(^{69}\) See \textit{id.}
As the Reporters explain, the starting point for the ALI Principles is application of the law of the place where the damage occurred. But in the digital age, according to the Reporters, “[d]esignating the country of initiation of the alleged infringement as the place of the ‘wrongful act’ enjoys the considerable merit of simplifying the action: only one national law need apply.” If we were to apply Section 301(1) to the Card Reader Case, where the main issue was infringement of a U.S. patent, U.S. law as the law of registration seems applicable for both the awarding of compensatory damages and injunctive relief.

The Supreme Court, however, treated the case as one of classic patent infringement; the simplification of applicable law was not an important issue for the Court. Thus, the Court determined the applicable law for damages and injunctive relief separately. Ironically, even when focusing on the occurrence of damages, a different tactic than that suggested by the Reporters of the ALI Principles, the Court ended up applying U.S. law. In other words, although the Court took a different approach (effects-focusing) from Section 301 of the ALI Principles (acts-focusing), it reached the same conclusion as would have been reached under Section 301.

In the Coral Powder Case, the Tokyo District Court followed the Supreme Court’s lead in the Card Reader Case. Also in the Coral Powder Case, the patent-based injunction was classified as the “effect of patent.” The Court held that the applicable law should be determined by Jori. Because the laws of the country where the patent was registered have the closest relationship to the patent, those laws should be applicable. In applying U.S. patent law, the Court concluded that the plaintiff’s products did not fall within the scope of the defendant’s patent. Thus, because selling these products did not constitute a violation of U.S. patent law, no injunction should have been ordered.

The Court, however, emphasized the tort implications by concluding that the damages sought by the plaintiff were based on

70. See id. at 109 (Comments & Reporters’ Notes).
71. Id.
72. See Card Reader Case, supra note 13, at 170–74.
73. See generally Coral Powder Case, supra note 22.
74. See generally id.
the defendant’s tortious warnings to the plaintiff’s business partner in the United States.\textsuperscript{75} Because the Court classified these warnings as torts, and since the defendant had sent his warnings via e-mails and letters from Japan, Japan was the place of the tort.\textsuperscript{76} The Court took a different approach (acts-focusing) concerning a tort claim from that of the Supreme Court in the \textit{Card Reader Case} (effects-focusing). Thus, the Law for the Prevention of Unfair Competition was applicable.\textsuperscript{77} The Tokyo District Court’s emphasis on the place from which warnings were sent, i.e., acts rather than effects, seems to mirror the meaning of Section 301(1).

\textsuperscript{75} See generally id.
\textsuperscript{76} See generally id.
D. Section 315, Transfer of Title and Grants of Licenses:

Employee’s Invention and Article 35 of Japanese Patent Law – Directly Applicable Law?

78. ALI PRINCIPLES, supra note 1, § 315. Sections one and two of the provision state:

(1) Except for the transferability of rights and transfers by operation of law, the law applicable to transfer of ownership in, or a grant of a license to use, intellectual property rights is the law designated by the parties to the contract.

(2) In the absence of a contractual choice of law clause, the applicable law is that of the country with the closest connection to the contract. It shall be presumed that the contract is most closely connected to the country where the assignor or the licensor has its habitual residence or its main business establishment.

Id.

79. Tokkyo Ho [Patent Law], Law No. 121 of 1959, art. 35, amended by Law No. 220 of 1999, (Japan) [hereinafter Japanese Patent Law], http://www.jpo.go.jp/shoukaie/patent.htm#35. The current version of this provision is as follows:

(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the "employer, etc.") shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the "employee, etc.") has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an "employee's invention") or where a successor in title to the right to obtain a patent for an employee's invention has obtained a patent therefor.

(2) In the case of an employee's invention made by an employee, etc. which is not an employee's invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent or the patent right shall pass to the employer, etc. or that he shall have an exclusive license on such invention shall be null and void.

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations.
Last, it is worth mentioning “employee's invention,” one of the hottest issues in Japanese IP law. Such a discussion raises fundamental issues regarding choice of law. Each country treats employee's invention issues differently. Germany has a special labor law (Arbeitnehmererfindungsgesetz), while in the United States and the United Kingdom, it is a matter of contract law. The relevant questions for us are twofold: (1) how to apply these laws, and (2) how to determine the territorial scope of these laws.

Article 35(3) of Japanese Patent Law provides that employees shall have the right to a reasonable remuneration when they pass to their employers the right to obtain patents for their inventions or have given employers the exclusive right to such inventions. The question raised is whether calculation of remuneration is a right vested only in Japanese patent holders or if the right to obtain a foreign patent should be included. In other words, does the right to obtain a foreign patent fall within the scope of Article 35? Although scholars and courts are divided on this issue, I believe that the scope of this provision is limited to Japanese patents. Since it is quite clear from its history that this provision was introduced to protect employees, it is by its nature much like labor law. The protection of employees should not depend upon the labor policies of foreign countries. Thus, it should be understood as “directly applicable law,” and applied when the labor, i.e., the research necessary for the invention, occurs in Japan.

Section 315, governing the transfer of title and grants of licenses, is the relevant ALI Principle concerning this issue. The Reporters’ Comments indicate that it seems to cover em-

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(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.

Id. (This provision has been amended and the new version will enter into force in April 2005; it will remain essentially unchanged, however).

81. 30 C.J.S. Employer § 118 (2004); Patents Act, 1977, c. 37, §§ 39–43 (Eng.).
82. Japanese Patent Law, supra note 79, art. 35(3).
83. ALI PRINCIPLES, supra note 1, § 315.
However, the section addresses inventions only as a matter of contract. Therefore, according to the ALI Principles, the parties could choose the applicable law in their agreement concerning the transfer of IP. This does not address the protection of employees, however. If Japanese courts are to accept Section 315, they should also apply Article 35 of Japanese Patent Law in order to protect employees who conduct their research in Japan.

IV. CONCLUSION

Comparing the ALI Principles with some recent decisions by Japanese courts makes it clear that some ALI Principles are easily acceptable to Japanese courts while others should be modified to clarify their scope. On the other hand, since the ALI Principles are influenced by the new IPR environment, such as digitization, Japanese courts may want to adopt rules similar to the ALI Principles when they face IP issues related to the new environment.

84. Id. at 131 (Comments & Reporters’ Notes) (“The intangible subject matter of the transfer or license has been developed by the transferor or licensor in its factories, workshops or studios. It is aimed at working or being used in a given technical or social environment.”).