THE ROLE OF THE TERRITORIALITY PRINCIPLE IN MODERN INTELLECTUAL PROPERTY REGIMES: INSTITUTIONAL LESSONS FROM JAPAN

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The principle of territoriality has been subject to much criticism recently. It is often argued that the territoriality principle does no longer fit to the needs of cross-border exploitation of intellectual property products. Therefore, in order to facilitate international trade, increasing support is given in favour of extraterritoriality. This article introduces the debate concerning the territoriality principle and presents two recent cases decided by the Japanese Supreme Court where the territoriality principle was at stake. Based on this analysis, it is argued that the territoriality principle should not be phrased as “either-or” question; instead it is submitted that one should view territoriality in a broader institutional perspective. Namely, Japanese cases support the idea that territoriality principle forms the basis of modern intellectual property regime and functions in consonance with other rules (choice of law rules, rules harmonising particular aspects of intellectual property or rules which could extend to possible extra-territorial situations).

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1. Introduction

Traditionally intellectual property system has been understood as based on the principle of territorality. Territoriality denotes legal regime where intellectual property rights are obtained on a country-by-country basis: in case of non-registered intellectual property rights acts of creation or publication should occur in the granting state; while in case of registered rights a prescribed form of application shall be presented to the relevant agency which usually would grant legal protection if certain requirements are fulfilled. Hence, territorality principle also means that granting of protection in one country does not create any legal entitlement to obtain identical legal protection in another country.\(^1\) More importantly, according to the principle of territorality such exclusive intellectual property rights are effective only within the borders of the granting states\(^2\): this would arguably mean that infringing acts must occur within the territorial borders of the protecting country.

The principle of territorality has become subject to vigorous criticism recently. It is argued that in the age where research and development became a global activity and the cross-border flow of intellectual property products is hastily increasing, the principle of territorality is no longer appropriate. One of numerous stimulus for the criticism of territorality is the change of the balance of interests among sovereign states, creators, users and intermediaries. More generally, the acceleration of international trade in intellectual property products unveils that the boundaries between different intellectual property protection systems have become very slim.

In recent years many countries have adopted various intellectual property strategies and legal statutes trying to rapidly improve their domestic industries and take the leading position in technologies. The impact of such policy moves have much broader consequences than simply facilitating the growth of domestic economies and strengthening one’s position in global competitiveness. Modes of exchange of information, medicine, public health, environment and other vulnerable areas of everyday life are closely related with the technological change. Meanwhile, the law has been always lacking behind the technological developments.

This article has two objectives. Firstly, it aims to present the existing legal regime cross-border enforcement of intellectual property rights in Japan. Therefore, Section 2 below firstly introduces legal debates which underlie currently prevailing principles of international aspects pertaining to the enforcement of intellectual property rights and illustrates them by briefly describing two landmark decisions recently handed down by the Supreme Court of Japan. The Second objective of the article is to introduce institutionalism as a methodology in addressing legal issues related with private international law aspects of intellectual property rights. To do this, Section 3 of this article proposes a “model” based on several groups of legal norms which affect the cross-border enforcement of intellectual property rights (namely, territorality, rules having extra-territorial effects, choice-of-law rules, and rules harmonizing certain intellectual property matters). This model is used to highlight the institutional complexity of intellectual property regime. In particular, it is argued that rules should be considered together with the institutional setting in which they operate. Such approach, arguably, would help to envisage

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\(^1\) In case of patents, Art. 4\(^{bis}\) (1) of the Paris Convention for the Protection of Industrial Property provides that “Patents … shall be independent of patents obtained for the same invention in other countries...” This rule is known as the “principle of independence of patent rights.”

\(^2\)
limited institutional capacities which is an important element is pursuing for a legal change. Although the model is explained on the basis of current Japanese law, some normative arguments may have broader implications also to legal systems of foreign countries. Section 4 concludes.

2. Debates on the principle of territoriality

The emergence of internet and global merchandise increasing attention has been given to the role of the territoriality principle. The following paragraphs are divided into two parts. The first part introduces a set of arguments related with pros and cons of the territoriality principle are presented. The second part presents the current state of cross-border enforcement of intellectual property rights in Japan. More precisely, the second part will depict two benchmark cases decided by the Japanese Supreme Court where the principle of territoriality of intellectual property rights was at stake.

2.1 The notion of territoriality

One of the cornerstone principles entrenched in most important intellectual property conventions is territoriality (Art. 5(2) of the Berne Convention and Art. 2(1) of the Paris Convention). The roots of the territoriality principle could be found in the medieval printing and manufacturing privileges granted on a case-by-case basis by sovereign seigneurs who thereby expected to increase their own wealth. Bilateral and international treaties concluded at the end of the XIX century generally aimed, firstly, to establish minimum standards and, secondly, to assure that foreign creators are treated in the same manner as domestic creators (so called “national treatment” principle). Such territorial nature of intellectual property rights remains up to now: intellectual property rights are granted on the statutory basis and can be exercised within the limits of the granting state.

Territoriality principle also determines the scope of enforcement of intellectual property rights. Having signed international conventions on intellectual property rights, states become obliged to assure minimum level of protection for national and foreign creators. If a particular state decides to establish higher level of protection of intellectual property rights, such rights can not extend beyond the territorial borders of the granting state. Hence, the right-holder can enforce his/her intellectual property rights only in the granting state. Further, another reflection of the territoriality principle is known as independence of national intellectual property rights: granting of intellectual property right in one country does not create an obligation to another state to grant protection for the same intellectual property product. This could be traced back to the idea of sovereignty and exclusive competence of states to regulate internal matters independently.

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3 1886 Berne Convention for the Protection of Literary and Artistic Works.
4 1883 Paris Convention for the Protection of Industrial Property.
6 See e.g. Art. 4bis(1) of Paris Convention.
Differences in national intellectual property regimes also posed a question of applicable law in those cases where the rightholder had rights in several countries. Although private international law and intellectual property law for quite a long time developed apart from each other, a special choice of law rule for intellectual property infringement matters was coined. Incase of cross-border infringement, this rule would require the application of the law of the country for which protection is sought (so called “lex loci protectionis”). Hence, in case of infringement of intellectual property right, the right holder would have to indicate under which country’s law he/she seeks protection. The traditional understanding of the lex loci protectionis principle is inherently related to the territoriality principle. Moreover, lex loci protectionis can also be seen as an extension of the territorial notion of intellectual property rights.

Albeit lex loci protectionis seems to render quite straightforward results (i.e. the application of the law for which the plaintiff seeks protection), cross-border enforcement of intellectual property rights unraveled the practical problems pertaining to the application of this rule. Some following examples could illustrate this. Firstly, at the stage of deciding whether the court can exercise international jurisdiction, it might happen that the plaintiff’s claims will not be heard if the court finds that it does not have international jurisdiction against foreign defendants (i.e. defendants are not resident in the forum country). Secondly, even if the court asserts international jurisdiction, it might decline to hear the case on the basis that foreign intellectual property rights are involved. Further, courts may dismiss the case if they had to decide on the validity of foreign intellectual property rights.

Principle of protecting country (lex loci protectionis) is closely intertwined with the territoriality of intellectual property rights.⁷ Namely, territoriality principle in its strict sense has been interpreted as meaning that the infringing acts can occur only within the borders of the country where the rightholder has his/her rights. This understanding of territoriality means that the infringing acts can occur only within the borders of the protecting country; and the law of this country would be applicable to the infringement. This notion, however, sits uneasy with distant intellectual property infringements when infringing acts committed in one country cause damage in a third country.

In the age where intellectual property products are objects of international trade it is argued that the territoriality principle is no longer appropriate.⁸ A number of recent cases⁹ in different jurisdictions which were decided following the principle of territoriality of intellectual property rights were criticized on the ground that courts failed to take into consideration the interests of the private parties.¹⁰ Scholars are questioning the appropriateness of the territoriality principle in the XXI century and the needs of knowledge economy. A number of different arguments

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⁷ Sometimes “territoriality principle” is also used to refer to the choice-of-law rule determining the applicable law for an intellectual property infringement case.

⁸ See e.g. US Supreme Court decision in case Voda v. Cordis or ECJ Ruling in case C-4/03, Gesellschaft für Antriebstechnik mbH & Co. KG (GAT) v. Lamellen und Kupplungsbau Beteiligungs KG (LuK), [2006] ECR I-6509 where courts refused to consolidate cases of parallel patent infringements.

have been raised to illustrate what improper results might occur if the enforcement of intellectual property rights is confined within territorial borders of the right-granting states.

The criticism which underlies all those criticisms of the territoriality principle of intellectual property rights is lack of efficiency. Such inefficiency is closely related with sovereignty argument which puts forwards the interests of sovereign states but does not take into account interests of private actors (firms). Besides supreme legislative competence to regulate intellectual property matters at the domestic niveau, sovereignty concerns could be noticed in the existence of registration requirements and rules positing exclusive jurisdiction for issues related with certain aspects of intellectual property rights (existence, registration, validity).

Another subset of arguments against territoriality are related with the uncertainty of what legal issues should be governed by the law the country which grants intellectual property rights; or, in other words, the material scope of the lex loci protectionis rule is interpreted differently. By and large, it seems there is consensus that the law of protecting country should be applied to issues of validity, registration and infringement of intellectual property rights. However, opinions differ as to whether the law of protecting country should be also applied to such issues of initial ownership (especially with regard to copyright works and employee inventions), remedies of the infringement and transferability of intellectual property rights. Several legislative initiatives in the US, Europe and Japan have been conducted in order to clarify those issues; although a closer glimpse into those legislative proposals elicits divergent academic opinions.

The inability to cover cross-border exploitation of intellectual property rights facilitated the development of an argument that territoriality should be replaced by extra-territoriality. In particular, proponents of this approach argue that we should not be so antagonistic to extra-territoriality for it is everyday practice of the courts. To be more precise, legal scholarship has been questioning about possible routes for departure from the territoriality principle. Other academics were wondering whether it would be possible to create intellectual property regime which was not based on territorial notion of intellectual property rights, if one could design it from the scratch. Such considerations were raised by academics and practitioners involved in the adoption of recent proposals dealing with cross-border aspects of intellectual property rights (ALI Principles, CLIP Principles and Japanese Transparency Proposal). However, it might

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11 Austin, p. 902.
12 Cf. Art. 22(4) of the Brussels I-Regulation.
14 Second Draft of the CLIP Principles is available at www.cl-ip.eu (viewed 14 January 2010).
appear that scholarly discussion can be abridged as “either—or” debate, this first impression is oversimplified. Namely, the choice between two principles of territoriality and extra-territoriality is pre-empted by the existing complex intellectual property systems and any further modifications should be made with a foresight of possible implications of a legal change.

As it was mentioned at the outset, one of the objectives of this article is to illustrate complex institutional settings within which principles of territoriality and extra-territoriality are functioning. In order to do so, a firm point of reference should exist. In this article, Japanese international intellectual property law will by used to illustrate the normative claim which is made in relation to the territoriality principle. Therefore, before current existing Japanese law will be introduced hereinafter. Institutional analysis will follow.

### 2.2 Japanese situation: Two case studies

Like in most other jurisdictions, private international law of intellectual property is relatively new area of law in Japan too. The old Private International Law Act (“Hōrei” dating back to 1898) did not contain any specific choice-of-law rules related with intellectual property rights. The same is true also for the new Private International Law Act of 2006 which substantially changed the old Hōrei. The reason why no specific choice-of-law rule for cross-border enforcement of intellectual property rights was included in the new PIL Act of 2006 is that conflict of laws aspects of intellectual property have not been sufficiently crystallized in Japanese and foreign legal scholarship.\(^\text{19}\) Besides, some Japanese government officials stated that existing domestic court practice is insufficient to serve as a ground for building up specific choice-of-law rule for various aspects of exploitation of intellectual property rights. Meanwhile, scholars in the fields of law and economics were encouraged to pursue more research on cross-border exploitation of intellectual property rights and their regulatory implications.\(^\text{20}\)

The prevailing academic opinion is that the principle of lex loci protectionis should be the right way to deal with cross-border infringements of intellectual property rights.\(^\text{21}\) Territoriality of intellectual property rights is based on the assumption that the protection to intellectual property products is granted on a country-by-country basis. On the other hand Territoriality principle also means that national intellectual property rights are not mutually-dependant. To put it differently, if copyright protection granted with respect to a work in country A, such protection is determined under the laws of country A; and since national intellectual property rights are independent the same work may be protected differently under laws of country A and country B. this is even more true in case of registered intellectual property rights (e.g. patents).

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\(^\text{20}\) See e.g., Takahashi, 328-329: Okuda, 41-42. Meanwhile, the interest in legal issues arising in cross-border exploitation of IPRs cases increased and increasing amount of research has been done. As for publications in English, see e.g., T Kono, "Recent Judgments in Japan on Intellectual Property Rights, Conflict of Laws and International Jurisdiction", In Drexl and Kur (eds.), Intellectual Property and Private International Law, (Hart, 2005), 229-239; T Kono, "Intellectual Property Rights, Conflict of Laws and International Jurisdiction: Applicability of ALI Principles in Japan?" (2005) 30 Brooklyn Journal of International Law, 865-883.

Cross-border infringements of intellectual property rights the court should apply the law of the country for which protection is sought (lex loci protectionis). The role of the principle of territoriality in cross-border intellectual property infringement cases was addressed by Japanese courts in a number of cases. The Supreme Court has usually interpreted territoriality of intellectual property rights as meaning that the existence, transferability and effects of each country’s intellectual property rights are governed by that country’s law. As regards patents, it was held that patent rights are effective only in the country of registration. However, principles of territoriality and lex loci protectionis were only fragmentarily analyzed only in few, although landmark, court decisions. Such scarcity of court rulings could be explained on the ground that the parties manage to settle their disputes during court proceedings or simply choose arbitration as an alternative dispute resolution method. Meanwhile, meager reasoning of the Supreme Court has facilitated the discussions and disagreements about the proper interpretation of the principle of territoriality. The two Japanese cases analysed below will provide descriptive arguments for the normative re-consideration of the territoriality principle (part 3 below).

2.2.1 Infringement of foreign IPRs: The “Card Reader” case

The most famous decision concerning cross-border infringement of intellectual property rights so far was handed down in the so-called “Card Reader” case. The plaintiff Fujimoto, a Japanese national residing in Japan, owned a patent in the U.S. but not in Japan. Neuron, a Japanese company with its principal place of business in Japan produced infringing product in Japan and exported it to the U.S. through its wholly-owned subsidiary allegedly inducing the infringement of the U.S. patent. Having found that the infringing product was sold in the U.S., Fujimoto filed a suit against Neuron making three claims for: a) an injunction against production and export of the infringing products to the U.S.; b) destruction of infringing products; c) compensatory damages for Neuron’s wrongful acts.

The Supreme Court of Japan first of all addressed the question whether it had an authority to issue an injunction for the prevention of the production of infringing products in Japan and their export to the U.S. The Court classified the injunction as an effect of the U.S. patent law: in the absence of any special provisions for intellectual property matters in the Hōrei, the Court found it necessary to decide the issue according to the general principle of jōri (fairness, reasonableness). The Court ruled that the country where the patent is registered should be applied to the question of injunction. It was decided that under Section 271 of the U.S. Patent Law both the infringer and the person who induced the infringement overseas are liable. Nevertheless, the Supreme Court went on saying that the extraterritorial application of the U.S. patent law would undermine fundamental values of Japan and referring to public policy exception (Art. 22 of Hōrei) refused to apply U.S. Patent Law. Unfortunately, the Court did not state precise reasoning why the application of the U.S. Law would run counter with the public policy of Japan. The Supreme Court only argued that injunctions are considered as public law.

legal redress and can be granted on the basis of the law which is force of the forum country. Further, it might be possible to infer from this reasoning that in the opinion of the Court, giving effect to a foreign statute with regard to activities which are partly committed in Japan would mean widening the reach of the American statute beyond U.S. borders – the consequences of which would run counter with the strict understanding of the principle of territoriality of intellectual property rights. The second part of the claim concerning damages was also denied. In particular, the Court referred to double-actionability rule and decided that there was no tort under Article 11 of Hörei.

The Card Reader case ignited the discussion among Japanese scholars about cross-border enforcement of intellectual property rights; however, there was no unanimity whether the decision of the Supreme Court in Card Reader case was correct. Many arrows of criticism were directed towards Court’s refusal to enforce foreign patent rights and grant injunctions. Scholars argued inter alia that the Supreme Court failed to make distinction between unilateral territorial scope of domestic statutes which is determined by the enactor the equality of laws of different countries which is the basic assumption of private international law methodology.

In view of the present author, the Card Reader decision could be criticized on two following grounds. Firstly, assuming that patents as any other intellectual property rights are based on the principle of territoriality, right holder is entitled to enforce his rights under the laws of the country where those rights exist. In the Card Reader case the plaintiff had a patent under in U.S. and claimed for the protection which is granted under the U.S. law. The question whether the injunction and damages were available should have been decided under the U.S. patent law. Moreover, the reference to the public policy of Japan as a ground for refusal to apply the U.S. law is not justified from an international intellectual property law perspective. Such reference to public policy obviously hinders the enforcement of intellectual property rights in cross border situations. The second criticism is related with application of the double actionability standard. The reference to double actionability runs counter to the principle of territoriality of intellectual property rights: rights exist independently in different countries if the requirements for their protection (in case of patents, for example, the annual fees are paid etc.) are fulfilled. The argument here is to abandon the double actionability rule at least in international intellectual property cases.

2.2.2 Initial title: The “Hitachi” case

One of the landmark cases in the area of initial ownership of intellectual property rights was decided by the Supreme Court in 2006. It involved dispute between Hitachi corporation and Yonezawa, one of Hitachi’s employee’s. Mr. Yonezawa was working in Hitachi from 1969 until 1996. After creating three inventions concerning the transfer of data to optical discs, Yonezawa and Hitachi signed an agreement for the transfer of rights to obtain patents. This

25 Dogauchi, p.
27 Similar proposal has been made by Y Nishitani, >> IPRax
contract did not explicitly deal with the territorial scope of the transferred rights. Later Hitachi made patent applications in Japan, US, United Kingdom, France, Germany, the Netherlands, and some other countries. Yonezawa received ca. 20,000 USD as compensation for the invention, although it appeared later that Hitachi succeeded in making huge profits from commercialization of the patented inventions. After retirement, Yonezawa filed a lawsuit requesting the court to order the payment of reasonable compensation.

The court of first instance\(^{28}\) dismissed the claims of the plaintiff indicating that the question of initial ownership of patent rights shall be determined according to the principle of territoriality; therefore, the effects of the agreement between the employer and the employee regarding transfer of rights to a patent shall be determined according the law of each country where the patent application is filed. Based of these considerations, the court decided that the requirement of just compensation entrenched in Article 35 of the Japanese Patent Act shall not be understood as covering also patents issued in foreign countries.

The decision of the court of first instance was reversed upon appeal and the claim for fair compensation was upheld.\(^{29}\) Tokyo High Court decided that the transfer agreements pertaining to patent rights was made under the Japanese law, and even though the parties did not expressly indicate the governing law, Japanese law was applied on the ground that the invention was made in Japan and both parties (Hitachi and Yonezawa) were Japanese. The court also indicated that agreements pertaining to initial ownership of patents are closely related with the public policy considerations. In this particular case public policy was interpreted as country’s interest in promotion of economic development and industrial innovations; thence the protection of employee’s interests was viewed as being part of public policy considerations. These arguments let the court to deduce that Article 35(3) of the Japanese Patent Act should be given imperative characteristics and cover domestic as well as foreign patent applications.

The Supreme Court in principle upheld the decision of the Tokyo High Court.\(^{30}\) The Court emphasized that there is a difference between the transfer of rights to patent the invention and the issuance of a patent \textit{per se}. In the case at hand, the object of parties’ agreement was the transfer of rights to obtain patents in Japan and a number of foreign countries. In the view of the Supreme Court, the principle of territoriality is important to the extent that the question of patent issuance (or, in other words, the fulfillment of patentability requirements) should be decided according to the law of each country where the patent application is made. It was decided the parties made an implied choice of law (Art. 7(1) of the \textit{Hōrei}). The Supreme Court also indicated that Japanese Patent Act does not directly deal with initial ownership issues regarding foreign patent applications. Instead, Articles 35(1) and 35(2) only deal with domestic situations, hence it would be difficult to make a conclusion that the right to just compensation entrenched in Article 35(3) also covers patents granted in foreign countries. Nevertheless, the Court went on to argue that patents form an essential component of national industrial development. In order to make sure that national economic policy goals are achieved, the interests of the employees should be duly protected. Therefore, the Court went on arguing that it is not reasonable to make a distinction between situations where the transfer of rights to obtain patents covers only domestic and does not comprise cross-border cases. Besides, from the practical point of view, it is not easy for the parties to anticipate \textit{ex ante} under what kind of

\(^{28}\) Tokyo District Court decision, 29 November 2002, Hanji No. 1807, p. 33.

\(^{29}\) Tokyo High Court, decision, 29 January 2005, Hanji No. 1848. p. 25.

legal protection the invention will be protected (trade secrets or patents); and if patent protection is chosen, it is not clear for which country the employee will seek patent protection. Such contractual agreements often involve parties who are bound by long-term contractual obligations and the underlying invention will usually be the same. This led the Supreme Court to the conclusion that Article 35(3) and 35(4) should be also applied by analogy to those cases where employee inventions become subject of foreign patent applications. In other words, in ascertaining the amount of reasonable compensation, the profits for the exploitation of the invention should also include profits gained in foreign countries.

The Supreme Court order to pay a compensation of 34,89 million Yen which was the highest compensation for the employee invention so far. The Court found the Hitachi had actually made profits of around 1,18 billion Yen, while the contribution to the invention made by Yonezawa was estimated to amount to 14 %. But the very next day a judgment in another notorious case Nakamura v. Nichia was rendered. Similarly, this latter case was also concerned with the amount of compensation for the employee invention of the blue LED which was created by Shuji Nakamura, currently professor at California University. Nakamura claimed for the compensation of 20 million Yen (i.e. ca. 190 million USD). After careful analysis of the facts of the case, the court of first instance was ready to order the compensation three times exceeding the one claimed by Nakamura himself. Such skyrocketing amount was possible because court took into account also possible future profits that the employee could get by exploiting rights of a patented blue LED. However, due to procedural limitations, the court ordered the compensation of the amount claimed by Nakamura. This remains the highest ever compensation ordered by a Japanese court for an employee invention.

In the course of appeal proceedings, Nakamura and Nichia concluded a settlement agreement according to which Nakamura got “only” 2 million USD. According to the inventor himself, he settled the case due to the pressure of his own attorney. Once he even gave a comment that Japanese corporations treat their employees as slaves, although some of the achievements could be awarded with Nobel prizes. Nevertheless, the public attention attracted by this case brought much emphasis of the need to protect interests of the employees-inventors. It was described as “seminal patent case” as listed among the key significant events in the evolution of the global patent system.

These cases brought more clarity as to the position of Japanese courts regarding different aspects of cross-border enforcement of intellectual property rights. Nevertheless, they also became subject of criticism and outcry for the development of more efficient legal framework. Namely, the Supreme Court decision in case Hitachi was criticized arguing that the Court failed to clarify such important issues as the governing law of the initial title. The general assumption which can be implied from the Supreme Court ruling is that initial title issues are governed by the principle of the lex loci protectionis which would mean that the question of who is the initial title holder should be decided on a country-by-country basis. On the other hand, such

31 Tokyo High Court, 30 January 2006, decision No. 13(wa) 17772.
mosaic application of the laws of different countries may be supplemented by the parties’ agreement with regard to the right to make an application to obtain patents in different countries. Court decisions favoring employees and ordering payment of huge amounts of compensation for their created inventions corrects imperfections of the contracts negotiated between the parties.

3. Re-considering territoriality: Institutional perspective

Recently economics and law scholars have gradually shifted their methodological analysis towards institutionalism. Institutional approach originated from the “new institutional economics” movement. The foundations of the institutional approach were laid by Ronald Coase and further elaborated by Oliver E Williamson who shared Nobel Prize in 2009 together with Elinor Ostrom. As the term implies, institutionalism is a methodology of comparison of institutional performance given different local conditions in which certain institutions exist. The definition of “institution” varies from author to author. Some highlight markets and hierarchies as main poles of institutions (O E Williamson), while others define institutions as “all forms of repetitive and structured interactions” of individuals. Institutionalist approach invites not only to compare the interaction of different institutions but also to extend the analysis of how different institutions interact with existing rules. Combined analysis of rules and their interaction with institutions was often described as a missing milestone in law “and economics” movement. Such comprehensive approach is much demanding and often leads to the development of frameworks and conceptual maps which help to understand differences between various institutional settings and make an the most efficient institutional choice. Institutional approach appears to be especially relevant to legal scholars who tend overestimate the role of legal norms without considering them in a broader landscape.

The following sections provide for an institutional analysis of the territoriality principle and its counterpart in private international law (lex loci protectionis). One of the main objectives is to show the complexity of the problem at stake. It is argued that debate over territoriality shall comprise numerous institutional considerations which allegedly were often left beyond the scope of investigation. Hence the following sections are devoted to explain the proposed “model”. The “model” should serve as an illustration of the role played by the principle of territoriality within a more complex intellectual property regime. The model depicts several “layers” of rules are identified: territoriality, extra-territoriality, choice-of-law and harmonised rules which not only interact among each other, but also form the foundation for different institutions and guide the behaviour of individuals (firms, the market). Although this institutional investigation is built upon existing Japanese private international law of intellectual property, it is assumed that the proposed model might have broader implications and fit within the legal systems of other modern intellectual property regimes.

3.1 *The model*

Vincent Ostrom once argued that when people talk about certain general notions such as “capitalism”, “market”, “democracy”, they usually are not cognisant about complex institutional systems that are hidden behind these concepts. The same is true of one employs concepts used in different areas of law. For instance, intellectual property lawyers talk about “free speech”, “fair use”; private international law scholars try to identify what amounts to “closest connection” of a particular transaction. Such stipulations are mainly focused on the rules themselves and seldom linked to broader institutional environment in which these concepts function. The same is also holds true if one refers to notions of “territoriality” and “lex loci protectionis”.

In order to understand the role of the principle of territoriality and lex loci protections, the proposed model draws distinction between different rules: territoriality, extraterritoriality, choice-of-law rules harmonised rules which are respectively intertwined with different institutional settings. Rules play a central role in the institutional analysis. Therefore, each layer of the model is based on different rules. Further, the rules identified in the model perform twofold functions: firstly, they may posit that individuals are to behave in a particular manner, and, secondly, prescribe certain institutional environment. Similarly, each of those layers depict coexisting “action arenas” where individuals, communities, institutions act in one or another way. Such multilayer framework helps to better understand the complex network of institutions that are involved in cross-border exploitation of intellectual property rights. These layers show that each set of rules carries specific institutional implications and has different affect to the behaviour of individuals (firms). The alleged benefit of this model is that it will help to elucidate pros and cons of each set of institutional environment and probably elicit institutional issues that are to be taken into account in pursuing improvement of legal system in the long term.

39 Vincent Ostrom.
Before going into detailed explanation of the proposed model, it is important to make to several general remarks. Firstly, this model should not be understood as proposing a developmental idea; rather it aims to generally depict modern intellectual property regime. Secondly, albeit this model aims to highlight the complexity of intellectual property systems, it will not necessarily imply comprehensive and complete picture (further limitations of the model will be addressed in a separate subsection below, section 3.4.4 infra). The subsequent sections will briefly elaborate on each layer of the model offering some institutional considerations from the Japanese perspective.

3.1.1 Territoriality and extraterritoriality

The two Japanese cases discussed above elucidate a very important point; namely, that territoriality-based rules and rules prescribing extra-territorial application of law exist and coexist together. In Hitachi case the Supreme Court had to deal with the question of initial ownership as a preliminary matter and ruled that the question of who is the original right holder of a an intellectual property product should be decided under the law of each country for which protection is sought. The underlying rationale of this statement made by the Supreme Court of Japan, is that the question of who should be initial right holder of an intellectual property product is a matter of property law of each particular country. Parties are however free to dispose those rights acquired under the laws of particular countries.

The extraterritorial application of the Japanese statutory provision requiring payment of reasonable compensation to inventors also with regard to patent applications made abroad could be seen as a judicial reaction to market imperfections. In the Hitachi case, parties made an agreement that right to make patent applications with regard to a particular invention was transferred from the inventor (who is considered as a holder of initial title) to his employee. However, often contractual arrangements between individuals are not complete because of limited availability of information at the time of contracting. And even though parties were putting much effort to act in a rational manner, the dynamics of social relations and limited information does not allow them to do so. Institutionalists call this phenomenon as “bounded rationality”. Hence, hierarchical institutions (courts, legislature) have to intervene where market is inefficient. This was exactly the case in Hitachi dispute: where parties were no longer in the position to negotiate as to what amounts to reasonable compensation, courts intervened.

Extraterritorial application of domestic intellectual property statutes is closely related win national economic policy considerations. This argument could be well illustrated by the Japanese example. After the end of the Second World War, Japanese intellectual property policy was very much oriented towards the U.S.: intellectual property statutes and general policy goals were amended according to the changes that took place across the Pacific. Nevertheless, notable changes begun in 1995 when the idea of an “intellectual property based state” matured in the heads of politicians. This was the moment when Japan began to create intellectual property policy which would be independent from the U.S. this change was

embodied in the so called “pro-patent oriented policy”: in 1996, the amount of granted patents went beyond the number of patent applications filed in the same year. This was so because the threshold of inventive step was lowered which not only made it easier to obtain patents but also resulted in broader patent rights. As a result, patent holders could recover damages in most patent infringement cases.

One of the important pillars in shaping Japanese intellectual property policy was so called “kondankai-report” adopted in 1997. This document was based “intellectual property circle” which contained three layers: 1) creation of intellectual property products; 2) prompt granting of intellectual property rights; and 3) effective enforcement of intellectual property rights. From then on, the new intellectual property policy was oriented towards the implementation of the three goals. New concept of “intellectual property state” (chizai rikkoku) was coined and greatly supported by the former Prime Minister Koizumi.

Timely and effective enforcement of intellectual property rights became one of the main drivers for the following institutional developments. A number of statutes have been amended (among them – Patent Act was amended 28 times between 1998 and 2008); and a strategic intellectual property conference was convoked in which the question of judicial enforcement of patent rights was one of the main subjects for discussions. Intellectual Property Basic Act was adopted and a special governmental Intellectual Property Strategy Headquarters was created. Simultaneously, intellectual property development plan was also created in July 2003. It was an improved version of previously drafted Intellectual property basic policy goals. Accordingly, organization of judiciary was aligned in order to facilitate intellectual property dispute resolution. From then on, only Tokyo and Osaka courts are competent to hear patent cases as a first instance, and a special court of appeals (Intellectual Property High Court) for intellectual property matters was established. Such institutional reorganization was implemented with an objective to provide the parties with qualified and efficient intellectual property dispute resolution system.

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Such policy considerations have direct effect on the behavior of firms. After the adoption of the “IP-based policy” and strengthening of patent rights; the number of claims raised by patent holders against alleged infringements increased notably. At the same time, an objective to strengthen patent rights also affected the activities of the Japanese patent office which reduced the threshold of inventive step. This resulted in granting of patent rights with relatively broader scope. Subsequently, broader patent claims also strengthened the position of patent holders who practically were able to successfully enforce their rights in judicial proceedings.

Furthermore, economic policy considerations are also mirrored in Hitachi case: in deciding to extend the scope of the obligation to pay reasonable compensation for inventors, the Supreme Court argued that this approach is in line with Japan’s economic policy considerations to protect the interests of inventors. This decision has likely had encouraging consequences for the number of inventors making claims for reasonable compensation increased of the Decision in Hitachi case was rendered. Similarly, the Supreme Court’s refusal to enforce U.S. patent rights (despite being contrary to the conflict of laws methodology) was allegedly guided by policy objective to strengthen the position of holders of Japanese intellectual property rights. Conversely, Supreme Court’s refusal to enforce foreign patent rights in Japan also had further tremendous effects: inability to seek judicial redress means weakening of the position of foreign intellectual property rights holders. This leads to another institutional implication: being informed about judicial flaws of enforcing foreign intellectual property rights, foreign right-holders may have been given a warning that cross-border intellectual property disputes related with Japan should be enforced by means of alternative mechanisms (putting more emphasis of mutual bargaining among the right-holders and alleged infringers or having recourse to arbitration proceedings).

3.1.2 Choice-of-law rules

The third layer within the model is concerned with choice-of-law norms and institutional setting surrounding them. Here, it is important to remind about different meanings associated with the notion of territoriality which is used by intellectual property lawyers and private international law scholars. Territoriality notion which is employed by intellectual property lawyers means territorial limits of intellectual property rights which are effective only within the territory granting state. “Territoriality” concept if used by private international law scholars implied different issues related with the application of domestic statutes of a particular country. Namely, private international law scholars have been arguing for a long time whether and under what conditions courts of one country can apply statutes of another country.

These different understandings of territoriality can be further highlighted through the perspective of the sovereignty. In case of intellectual property rights, sovereignty of each state means that each country can independently decide whether and what intellectual property rights can be granted; existence of rights in country A does not mean that legal protection to the same object must be granted in country B unless certain statutory requirements are fulfilled. In the area of private international law, the role of sovereignty is quite different. One of the fundamental premises of the private international law methodology is equality of national legal
systems of different countries; thus a court dealing with multistate dispute has to determine the applicable law of one particular country. The determination of the applicable law is made by means of choice-of-law rules. Choice-of-law rules designate applicable law of one particular country based on specified connecting factors (e.g. place where damage occurs). Choice-of-law rules would be meaningless if national laws were not treated on an equal basis. The role of sovereignty in private international law methodology is only significant to the extent where the application of foreign law would undermine the public policy of the court’s country. In other words, according the prevailing doctrine, courts can refuse to apply foreign law only to the extent that such application would impinge upon fundamental values of the forum country.

The efficiency of solving multistate disputes depends on three main factors: the existence of choice-of-law rules, characterization of legal relations and dangers prone to the abuse of public policy exception.

Firstly, the existence of choice-of-law rules plays a vital role in cross-border exploitation of rights. If choice-of-law rules do not exist in the law of forum country, or if choice of law rules are nebulous; enactors are more likely to err. Meanwhile, it is important to emphasise the supplementary role of choice-of-law rules. Choice-of-law rules come into play when the governing law is not clear. Principle of party autonomy allowing the parties agree on the applicable law is gaining more acceptance in choice-of-law statutes of different countries. Nevertheless, party autonomy is not absolute and subject to numerous limitations. The increase of the importance of party autonomy can be explained from the efficiency point of view: it stands to reason that the most efficient solution can be reached the market players mutually agree on contractual terms including the governing law. Parties’ choice of law would confer more legal certainty and stability to market transactions. Furthermore, allowing party autonomy as a rule for private transactions would diminish possible errors at the adjudicative process. For example, complex intellectual property contracts are usually connected with several jurisdictions and the determination of the applicable law to such transactions usually will depend on the institutional capabilities of a particular court. Such pitfalls could be avoided if market players were informed about the possibility to determine the applicable law and that their choice of law clauses will be enforceable.

If party autonomy is posited as a choice-of-law rule (for those issues that parties can dispose by their contractual arrangements), the role of other choice-of-law provisions becomes obvious too. Clear-cut choice-of-law rules have to be present for those situations where parties fail to agree upon the applicable law or those issues which are not subject to party autonomy. Again, existence of clear choice-of-law rules would add more legal certainty and reduce transaction costs. Efficiency considerations require establishment of a clear definition of what intellectual property issues shall be governed by the law of protecting country (lex loci protectionis) and which are subject to party autonomy (see further considerations in section 3.2.2 infra).

Secondly, such methodologies as characterization pose much uncertainty as longs as there is no clear-cut approach pertaining how particular legal relationships should be characterized. The process of characterization has been described as pigeonholing, often resulting in the situation where particular legal relationship is characterizes so as to lead to the application of the forum’s law. Such “homeward trend” has been always inevitable part of choice of law methodology.

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46 See e.g F Juenger, Choice of Law and Multistate Justice, (Transnational Publishers, 2005), p. 72.
The case Hitachi was also criticized arguing that the court failed in correct characterization of the legal relationships at stake.\textsuperscript{47}

\textit{Thirdly}, considerable problems are related with the use and abuse of the public policy exception. This could be well illustrated by the Supreme Court decision in the Card Reader case. In the Card Reader, the Court first had to answer the question whether it can apply US Patent Law under which the claims of the plaintiff would have to be enforced. Even though, the production of allegedly infringing products took place in Japan, the US Patent Act would have covered situations where certain inventions protected under the US patent are produced abroad, but later imported to the US and distributed there. From the private international law perspective, the judgment of the Japanese Supreme Court is not sound because refusal to apply the US law was made on the basis that it would be incompatible with the public policy of Japan. The Supreme Court followed the “strict” notion of the territoriality of intellectual property rights and refused to grant injunctions based on the infringement of foreign intellectual property statute.

It was already argued above that the refusal to enforce foreign intellectual property rights tremendously weakens them: inability to enforce intellectual rights in the country where part of infringing acts occur may force the right-holder to raise a claim in a country of protection. However, if the plaintiff in the Card Reader case had made filed a suit before the courts of the U.S. as the country for which protection is sought he would not have been able to seek injunctions with regarding the acts occurring in Japan. Even though the right holder was able to claim for damages before the U.S. courts, impossibility to seek injunctions in Japan is very detrimental. This is so because injunctions usually are cornerstone tools for the enforcement of intellectual property rights.\textsuperscript{48}

Legal quandaries of characterization and public policy exception unravel challenges at the conflict-of-laws level. Knowledge about the abuse of public policy exception by courts of a particular country would definitely affect the market: undesirable judicial activism will reduce attractiveness of that particular legal system and affect the number of disputes submit for the resolution of the courts of that given country. In the field of cross-border enforcement of intellectual property rights, efficiency and legal certainty considerations require clarification of the scope of lex loci protectionis and the reach of party autonomy.

3.1.3 Harmonised rules

Finally, the outer layer of the model identifies “harmonised rules” which also form significant element in a modern intellectual property regime together with territoriality, rules which cover extraterritorial situations and choice-of-law rules. Harmonised rules usually originate from bilateral or multilateral agreements among the states. In the field of international intellectual property law, a number of significant international treaties have been signed with an objective harmonise particular areas of intellectual property law. For instance, in the field of patents, Patent Cooperation Treaty (PCT) established a system of single patent application filing which designates international filing date and facilitates the issuance of a bundle of patents in


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contracting states. Or, recently, a so called “Patent Prosecution Highway” (PPH) was established among the number of patent offices of leading industrial countries.\(^{49}\) PPH facilitates patent prosecution and gives an opportunity for participating patent offices to share the information and benefit from the work previously undertaken by another patent office. Harmonised rules may also exist in the area of private international law. For instance, certain countries may ratify certain international treaties harmonising certain choice-of-law rules and implement them into their domestic laws.

Harmonisation of certain areas of intellectual property law notably affects the institutional environment of legal system. This is quite obvious in the field of intellectual property. Inner layers of the model mainly involve a variety of actors within one legal system (individuals, firms, interests groups, government agencies, courts, legislator). Harmonisation of intellectual property necessarily increases the number of players. For instance participation in the Patent Prosecution Highway will also involve foreign patent offices and other governmental agencies. The increase of number of institutions will also have implications to their activities. This leads to a number of further considerations related with the institutional complexity of intellectual property system.

### 3.2 Further institutional implications

#### 3.2.1 Diversity of institutions

The proposed model not only obviates the close interrelationship between separate sets of norms, it further makes institutional diversity obvious.\(^{50}\) The creation and enforcement of each set of the norms highlighted in the model depends to a large extent whether appropriate institutions exist and function properly. Further, the efficacy of the intellectual property system depends on the overall performance of the system. The malfunctioning within one “layer” may have detrimental to other institutional layers too. Hence, one of the main ideas of the model is to inform about the multilevel institutional complexity of the modern intellectual property system.

The remarkable element of the acknowledgement of institutional diversity is that it promotes efficiency. In systems where number of individuals, firms, communities and other forms of institutions are involved, decision making process is very complex. The need to take interests of many stakeholders into account comes at a great cost. However, comparative institutional approach allows identification of alternative mechanisms which would facilitate institutional change for a more efficient outcome. Institutional analysis obviates institutional capacities and, more importantly, existing imperfections. When markets can not function properly, the role of alternative institutions increases; but the further question is which institution is the most appropriate? Understanding institutions and their limited capacities is an important step in opting for the best alternative from a number of defective choices.

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\(^{49}\) See e.g. http://www.jpo.go.jp/cgi/link.cgi?url=/torikumi_e/t_torikumi_e/patent_highway_e.htm (last accessed 10 January 2010).

Similarly, viewing the principle of territoriality as a cornerstone rule intertwined with other legal provisions helps to explain the complexity of international intellectual property regime. Territoriality together with other rules creates an institutional environment necessary for an efficient enforcement of intellectual property rights. Hence, each set of these rules necessitate the existence of specific and closely-interacting institutions of governance. The debate about the need to improving international intellectual property regime should be pursued in the light of this “institutional complexity” consideration.

3.2.2 Rules, standards and the swing of pendulum

Another important set of institutional implications of the model is related with the “rules versus standards” debate. This dichotomy was thoroughly analysed by law and economics scholars. Rules are usually understood as precise prescriptions guiding the behaviour of individuals, while standards imply more general notions of what constitutes moral behaviour (cf. traffic rule which prescribes 60 km/h speed limit and the standard of “safe speed”). The following paragraphs will firstly provide an overview of key insights stemming from the contraction between rules and standards. Secondly, institutional perspective will be added in order to illustrate how the principle of territoriality and lex loci protectionis have been shifting from a rather abstractly-framed standard to a more detailed rule.

Law and economics scholars have made a substantial contribution to the analysis of legal norms by applying cost and benefit approach to the two different modes of legal prescriptions: norms and standards. The underlying question was whether legislation should adopt rules or standards for the purposes of controlling the behaviour of individuals. In order to ascertain and compare costs associated with rules and standards, three issues that are to be taken into consideration: the costs incurred at the promulgation stage; costs incurred by individuals in trying to comply with the enacted laws, and costs related with the enforcement of law.

Usually, the enactment of laws is a time consuming and costly endeavour. The rules governing political process may be partly related with prolonged enactment of the laws. Besides, participation-based approach requires that opinions of numerous stakeholders are heard and many possible legislative alternatives discussed. Considerable difficulties may be related with choosing the precise language of the statute; various interest groups may prefer different wording of the legal text. Furthermore, substantive costs may be related with the number of institutions and stakeholders involved. Hence, at the stage of promulgation, the enactment of standards may be preferable rather that the enactment of rules.

The choice of individuals in making decisions may often depend whether the legal act is posited as a rule or a standard. Namely, the behaviour of individuals will depend with the possibility of determining the content of the law. This will be largely related with the costs of determining the meaning of the law. Non-informed individuals will have to inquire for a legal advice and the cost of that inquiry will depend on the fact whether the legal precept appears as a clear-cut rule or as a more general standard. The determination of the meaning of a rule might be less costly than the determination of the meaning of a standard. The behaviour of individuals may depend on the fact whether costs of getting legal advice are higher than benefits. Therefore, assuming

52 Ibid.
that the costs of getting legal advice are higher than costs associated with the determination of the meaning of a particular rule, individuals may behave according to their own perception of the standard in order not to incur high costs especially if sanctions for possible violation of the law are not severe.

Finally, further differences between rules and standards become clear if cost and benefit analysis is made at the level of enforcement of law. The enforcement of a clear-cut rule is usually cheaper that the enforcement of a vague standard. This is so because in case of clear rules enforcing authorities do not have to incur costs related with the interpretation of the law. If the legislature opted for a standard, significant costs are shifted from the legislature to the enforcing authorities.

The distinction between rules and standards also sheds light to another discussion concerning ex ante and ex post regulation. Usually, in situations where the lawmaker aims to steer the behaviour of individuals in a particular manner, rules are preferred over standards. On the other hand, standards are adopted if the lawmaker does not find it inevitable individuals to behave in a strictly defined manner. To put it differently, deterrence considerations directly affect whether rules or standards are enacted. In the same vein, the choice between rules and standards depends on the frequency of the occurrence of a particular behaviour of individuals. Therefore, if certain behaviour occurs quite frequently, law should be given the form of rules. Conversely, if the behaviour is does not occur very often, standards should be preferred. Yet, this assumption of frequency should not be generalized. Standards may be preferable to steer individuals’ behaviour which although occurs frequently, it does so in a very different manner (e.g. variety of possible wrongful acts and the need for “just compensation”). If certain forms of behaviour occur frequently, but are usually identical, standards may not be the best solution because a clear cut-rule may have greater effect on individuals’ behaviour.

How does this debate of choice between rules and standards could be applied in the field of private international law of intellectual property? The possible answer could be given if one tries to clarify whether the principle of protecting country should be understood as a rule or as a standard. The argument here is that for several decades lex loci protectionis principle was understood as a general standard which required application of the law of protecting country to each and every legal aspect of intellectual property right. Thus, such broad notion of the lex loci protectionis principle would mean that issues related with the existence, validity, transferability, and effects of intellectual property right was to be governed by the law of the country for which protection is sought.

The enactment of the lex loci protectionis provides for a valuable practical illustration of the choice between rules and standards. For quite a while lex loci protectionis was perceived as a more general standard for practically rarely occurring cross-border situations. Therefore, courts were left with much wider scope of discretion in determining the content of the lex loci protectionis and its appropriateness for a given case. Positing lex loci protectionis principle as a standard means that the costs related with the determination of the meaning of this standard are shifted to the courts (ex post regulation). This could be verified by the case-law of Japanese courts. It was shown above, that Japanese law remained silent of numerous legal issues related

with cross-border exploitation of intellectual property rights. It seems obvious why the legislator would not find it necessary to engage into legislative activities which were not necessary due to seldom arising problems in the area. The more rational solution is to leave the regulation was left to the market. However, when the conflict between individuals can not be solved by instant market forces, the recourse to state institutions becomes inevitable. This is illustrated by the Card Reader and Hitachi cases where courts had to solve disputes where parties were no longer at the position to bargain. From the costs and benefits perspective, it was less cumbersome for the government to shift the costs of decision making to the courts.

However, leaving the courts with broad discretion over the interpretation of the fuzzy law, also means the increase of costs of adjudication. These costs should be understood as comprising costs related with possible error in decision making. For instance, in the Card Reader case the Supreme Court failed to adopt dynamic interpretation of the ambiguous law private international law statute (Hōrei) which caused error in judicial decision making. Institutionalism scholars have introduced the term of “bounded rationality” to identify limited institutional capacities. Hence, it has to be acknowledged that the capacities of each institution are limited, which also affects the performance of each institution.

The awareness of limited institutional capacities leads to another challenging question posed by institutionalists; namely, which institution should determine the content of the law: the legislator, certain government agencies or the courts? Furthermore, this debate requires also incorporation of the interests of market. As it was argued elsewhere, “institutions tend to move together”, and structural changes pertaining to one institution will inherently affect the performance of the other. It is argued that institutions are constantly increasing; and in the classical divide of three branches, government agencies and legislature appear to be growing faster than courts. The decision of “who decides” should be made in the light of such institutional factors.

Unsatisfactory performance of one institution might cause rebalancing of the whole institutional setting. Hence, the failure to applying the law dynamically at the adjudicatory level may result in shifting the decision-making powers: the law may be changed by the legislator in order to adapt it to the current market needs; besides, agencies may be given broader competence in applying the law. This could be illustrated by similar changes that have happened in the field of private international law of intellectual property. Difficulties associated with the determination of the meaning of fuzzy lex loci protectionis standard (e.g. the Card Reader case) result in the adoption of more precise rules for cross-border exploitation of intellectual property rights. This could be better illustrated by recent initiatives undertaken by the American Law Institute, the CLIP Proposal and their Japanese Counterpart. This would also mean that the choice-of-law issues in cross-border intellectual property matters will be clarified at the statutory level leaving


56 See Komesar, supra note


less discretion to the courts. By the same token, the move from an abstract lex loci protectionis standard to more elaborate choice-of-law rules will create more legal certainty and foreseeability.

### 3.2.3 Territoriality and move toward unilateralism

Territoriality – extra-territoriality debate could be associated with private international law discussion related with unilateralism and multilateralism. Unilateralism in private international law scholarship denotes a situation where each state prescribes the territorial reach of its domestic statutes, whereas the notion of multilateralism is used to define national legal systems which contain special choice-of-law rules determining in what circumstances domestic courts domestic or foreign law. Territorial reach of intellectual property statutes could be analysed under the umbrella of unilateralism: as it was argued before, economic and social policy considerations of a particular country might render the statute to apply for certain cross-border intellectual property cases (as in Hitachi case).

On the other hand, taking a closer look at choice-of-law rules could unravel another important aspect of modern intellectual property regime. Namely, the creation of choice-of-law rules for cross-border aspects of exploitation of intellectual property rights is a significant step further towards multilateralism. The concept of multilateralism is based on the premise that domestic statutes of different countries are all equal and that national courts should usually apply foreign legislative acts unless such application would be contrary to the essential principles of the public policy of the forum state. In intellectual property context, this would mean that rightholders can sue alleged infringers of their rights before courts of defendants domicile and invoke claims based on foreign laws. Courts, on the other hand, should in principle apply foreign intellectual property laws unless there are some grave policy considerations against the application of foreign law. Hence, such unforeseeable outcomes as in the Card Reader case could be avoided.

### 3.2.4 Limitations of the model

The proposed model of modern intellectual property structure contains certain limitations. Firstly, it does not cover developing countries where intellectual property systems either do not exist or are very weak. Such developing countries are not be covered by the proposed model because they might prefer to have no intellectual property protection due to a number of different political or economic reasons.

Second limitation of the model is related to its descriptive qualities. As it was mentioned before, this model should by and large fit for modern intellectual property regimes of advanced countries. However, certain set of rules (those leading to extraterritorial application of particular statutes, choice of law rules, or rules harmonising certain aspects of intellectual property rights) might not exist in domestic legal system.

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Thirdly, it is also important to address a more general question of demand of institutions. Institutions of governance and intellectual property regime would not develop if there is no demand for improvements. One economist referred to an illustrating joke: an economist and a student were walking down the street when the student saw a hundred-dollar banknote lying in front of the sidewalk. The student rushed to pick it up, but the economist stopped him and explained that the money could not possibly be there because if it was there, someone would have picked it up before.\footnote{M Olson, "Big Bills Left on the Sidewalk: Why Some Nations are Rich and Others Poor", (1996) 10 Journal of Economic Perspectives, pp. 3-24.} This explains much of the changes in intellectual property regime: the knowledge about possible alternative institutional models does not itself create any need for institutional change. Yet, when the need for the adoption of additional legal rules – be they related with improvement of intellectual property system, or harmonisation of particular intellectual property issues – occurs, such need will facilitate the institutional change.

4. Concluding Remarks

This paper aimed, firstly, to illustrate the current Japanese private international law of intellectual property, and, secondly, propose some normative insights. The proposed model emphasized the close interrelationship between different sets of rules which are closely interrelated; the existence of institutional environment which is serves to assure that the rules are enforced and the close interrelationship between different sets of rules and institutional environment. The complexity of institutional environment is usually left behind the debate among legal scholars. However, it is argued here that the institutional diversity helps to understand limited capacities of institutions and therefore facilitates the search for a more efficient international intellectual property regime.