I.  INTRODUCTION

I would like to start my presentation with what probably is good news. Japan is preparing to accede to the United Nations Convention on Contracts for the International Sale of Goods (hereinafter referred to as the “CISG”). The work started in October 2006 and the plan is to get approval from the legislature in 2008. Unless anything unexpected happens, the CISG will come into force with respect to Japan in the year 2009. That will be almost 30 years since the adoption of the CISG at the diplomatic conference in Vienna, and almost 20 years since its coming into force.

The question I would like to deal with in this short presentation is: why did Japan not join the CISG earlier and why now?

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II. REASONS FOR NON-ACCESSION: THE CASE OF THE UNITED KINGDOM

Whenever I am asked why Japan has not become a member state of the CISG, I feel a bit uneasy, but the consolation has been that Japan is not alone. The United Kingdom has always been standing by our side. I am in no position to explain why the U.K. has not joined the CISG, but several explanations are given by our fellow Englishmen.

Firstly, in many international commercial disputes concerning the sale of goods, England is often chosen as the seat of litigation or arbitration for international commercial disputes, and English law is chosen as the applicable law. This is especially so in the field of commodity trade. This means business for the legal service industry in England who enjoys this advantage because of the nature of their contract law, which I will touch upon shortly, and the existence of their strong “commercial bar”. There is a fear that joining the CISG may diminish this advantage.

Secondly, English contract law characterized by its strictness and emphasis on certainty, is considered more suitable to international sale than the CISG which values equitable solutions over certainty. The fact seems to be that English law is better suited for commodity trade, but perhaps not obviously so for other types of transactions, and thus we have a “bifocal” world of international sales which focus on different types of sale transactions. However, the opponents of the CISG view this as another battle between “form and substance” in contract law in general.

These reasons, although not totally convincing, are based on real concerns about the impact of the CISG, and are real oppositions. The reasons for Japan’s inaction is less glamorous.

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2 The reference is of course to P.S. ATTYAH / ROBERT S. SUMMERS, Form and Substance in Anglo-American Law (Oxford; Clarendon Press, 1987) in which the authors compare the formality of English law and the substantial nature of U.S. law.

3 If the parties consider that English law is better suited for their transaction than the CISG, they can simply make it the applicable law of their choice, even if UK accedes to the CISG. All they have to do is to put in their contract a choice-of-law clause choosing English law. The only change they will have to make to their current contract practice is to make sure that the choice-of-law clause explicitly exclude the application of the CISG, in accordance to Article 6, because otherwise simply choosing English law will most likely be interpreted as including the CISG. See e.g., PETER SCHLECHTRIEM, in: P. Schlechtriem / Ingeborg Schwenzer (eds.), Commentary on the UN Convention on the International Sale of Goods (CISG), (Second (English) edition, Oxford University Press, 2005) Art. 6, para. 14.
III. REASONS FOR NON-ACCESSION: THE CASE OF JAPAN

In contrast to the U.K., there has never been a real opposition to the CISG in Japan. It is not that any decision to reject the CISG has been made. There was a time in the early 1990s when it seemed that Japan was almost going to join the CISG. In 1989, soon after the CISG came into force, the Ministry of Justice (hereinafter referred to as the “MOJ”) organized an informal study group to examine the CISG. It was expected that upon the recommendation of this study group, the MOJ would commence the official process of acceding to the CISG. This did not happen. The study group continued with its mandate until 1993 when their work was suspended before reaching any conclusion.

The most direct reason for the suspension was the lack of manpower\(^4\). In the early 1990s, the Japanese economy was struggling with the aftermath of the burst of the bubble economy. The legislative agenda became full of urgent legislations directed toward economic recovery. These included laws on secured transactions, insolvency laws, corporation laws, and so on which required full attention of the MOJ. The MOJ could no longer afford to continue with its work on the CISG.

But that was not the only reason. There was also some hesitation, though not a concern, about the CISG.

First of all, it was still in the early 1990s when the number of Contracting States was around 30. It was not clear whether the use of the CISG would become prevalent. There was also some uncertainty as to how the CISG will be applied in other Contracting States.

Secondly, the major Japanese trading companies (the “sōgō shōsha”) did not really feel the need at that time for the CISG, and were not particularly enthusiastic about it. Rather they were reluctant to take on the costs of learning the CISG\(^5\), and repeatedly expressed their intention to will opt-out of the CISG anyway. Standard terms opting out of the CISG became so common that you will find them even in contracts which do not involve any element of sale of goods.

This lack of support no doubt discouraged the MOJ to continue its work on the accession to the CISG under the economic conditions of the time.


IV. REASONS FOR CHANGE

As I reported at the outset, Japan has reversed its course and is now preparing to accede to the CISG. What brought about this change? The most direct reason is that the congested legislative agenda have somewhat cleared and the MOJ is now able to devote their manpower to this task again.

A more indirect reason, but an equally important one, is the phenomenal success of the CISG. All of the negative predictions which were sources of reluctance in acceding to the CISG in the early 1990s turned out to be wrong. The number of Contracting States has more than doubled. With the emergence of the vast array of court and arbitral decisions, and the enormous amount of scholarly writings, doubts about the predictability of the CISG have diminished as well. This has impact both on the legal community and the business community.

The legal community is becoming more and more comfortable with the CISG. The CISG is gradually becoming assimilated into Japanese law, and is starting to influence the interpretation of the Japanese Civil Code. For example, CISG’s limitation of avoidance of contracts to cases of “fundamental breach” (CISG Arts 49(1)(a), 64(1)(a)) was first considered to be an alien concept in Japan. It was traditionally understood under Japanese law that, as a general rule, the injured party may avoid the contract after giving the breaching party a grace period (Nachfrist), no matter how trivial and what type the breach may be (although it was also understood that fault on the part of the breaching party was necessary). There were, however, exceptions scattered around the Code which allowed avoidance of contracts only when the purpose of the contract can no longer be achieved. A reconfiguration of the interpretation of the Japanese Civil Code now attempts to turn these exceptions into the norm, which will put the Civil Code in line with the CISG. According to this view, the limitation of avoidance to cases of fundamental breach is nothing new and it has always been a part of the Japanese Civil Code.

And then further, the MOJ has now started working on the revision of the Obligations Law of the Civil Code. That decision was made in order to adapt the Code to the

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6 See eg., HIROO SONO, Keiyaku kaijo no yôken, kôka [Avoidance of Contracts], in: Kaoru Kamata et al. (eds.), Minji-hô 3 [Private Law, Vol. 3] (Tokyo, Nippon Hyôronsha, 2005), pp. 76-89. The author stumbled across a similar and interesting case law development in Spain which restricts avoidance of contracts to cases of fundamental breach in non-CISG cases: Spain 5 April 2006 Supreme Court, CLOUT no. 735, available at http://cisgw3.law.pace.edu/cases/060405s4.html; Spain 31 October 2006 Supreme Court, CLOUT no. 736, available at http://cisgw3.law.pace.edu/cases/061031s4.html; Spain 9 November 2006 Appellate Court Islas Baleares, CLOUT no. 737, available at http://cisgw3.law.pace.edu/cases/061109s4.html (the three Spanish cases were last visited on 19 December 2007).
7 See the website of the “Japanese Civil Code (Law of Obligations) Reform Commission” at http://www.shojihomu.or.jp/saikenhou/. NOMI, supra note 4, suspects that one reason that held back Japan from acceding to the CISG in the early 1990s was the misconception that a revision of the Civil Code would be required to accommodate the CISG. As Nomi points
social and economic change that took place since its enactment more than a century ago. However, this decision was also stimulated either directly or indirectly in part by the success of the CISG. It is only natural that the CISG will have impact on this upcoming revision.

For the business community, the benefit of using the CISG is gradually settling in. At the background of this is the development of globalization, and the fact that international trade has become a part of everyday life. Small and medium-size enterprises which are not well prepared to face the legal technicalities are engaging in international trade more than ever. Arguably, the small and medium-size enterprises will become the largest beneficiary of the CISG when Japan becomes a Contracting State. This factor adds to the reasons to accede to the CISG.

The major trading companies are also beginning to change their attitude toward the CISG, now that they have discovered that the CISG is being used in a large part of the world. They are finding out that the CISG can curtail costs of dealing with diverse domestic laws, as well as transactions costs associated with negotiating choice-of-law clauses.

These changes in the business environment are in large part due to the growth of the Asian market.

V. THE ASIA FACTOR

This can be observed from two perspectives. One is the increase in Japan’s trade with Asia. The other is the characteristics of CISG cases involving Japanese parties.

1. Increase in Japan’s Trade with Asia

Most symbolic is the rapid increase of Japan’s trade with China. In the year 1990, China’s share in Japan’s export/import trade was less than 4%. Today it is close to 20%. This is equal to Japan’s trade with the United States, which used to be Japan’s largest trading partner for years. The U.S. and China combined account for nearly 40% of Japan’s international trade.

The same applies to other East Asian countries. Japan’s trade with this region, even excluding China, amounts to more than 20% of Japan’s export/import. This surpasses Japan’s trade with the U.S. or with China. Given the diversity of legal systems among these countries, and given that many of these countries are either transition economies or economies in the process of developing their legal infrastructure, the advantage of

out correctly, this is a fallacy. However, the government’s willingness today to consider revising the Civil Code certainly helps to remove this (false) barrier.

8 The following analysis is based on trade statistics available from the Japan External Trade Organization (JETRO) website http://www.jetro.go.jp/jpn/stats/trade/ (last visited on 15 June 2007).
having one common contract law is becoming more attractive than ever. Of course, at present, China, Singapore, and Korea are the only East Asian States parties to the CISG. However, joining the CISG would be a big step for Japan toward dealing with the Asian diversity.

2. CISG Cases Involving Japanese Parties

A quick research of the Pace CISG database\(^9\) revealed ten cases where CISG was applied to international sales involving a Japanese seller or buyer\(^10\). One of them is an Australian court decision, another a Russian arbitration, and the other eight are cases from China: three court decisions and five arbitration cases. The arbitration cases are all from the China International Economic and Trade Arbitration Commission (hereinafter referred to as “CIETAC”). The cases identified are probably only a tip of the iceberg, and this is indicative of where the gravity of the CISG practice in Japan will lie. All the cases are from the Asia-Pacific region, mostly China, and Japan’s northern neighbor Russia.

Since Japan is not a contracting state, the application of the CISG in those cases cannot be based on Article 1(1)(a), although there are several CIETAC cases which have mistakenly applied the CISG to disputes involving parties with place of business in Japan on that basis\(^11\). Rather, they must be applied on the basis of 1(1)(b). In 2003, the Supreme Court of Victoria, Australia, applied the CISG to a dispute involving a Japanese seller and an Australian buyer\(^12\). Similarly, in 2005, a Tribunal of International

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9 A “Google” search by the combination of the terms “cisg case presentation” and “country: japan” will result in a list of cases in the Pace database involving a Japanese seller or buyer. I conducted the search on 17 June 2007 and again on 6 September 2007. Two cases which appeared on the first search did not show up on the second search. Admittedly, this search is not totally watertight, but it should suffice for the purpose of this paper.

10 In addition to these, there must be cases involving overseas subsidiaries of Japanese companies. One early example is France 22 April 1992 Appellate Court Paris (Fauba France FDIS GC Electronique v. Fujitsu Microelectronik GmbH), translation available at http://cisgw3.law.pace.edu/cases/920422f1.html. The German seller was a subsidiary of Fujitsu Ltd., a Japanese company.


Commercial Arbitration at the Russian Federation Chamber of Commerce and Industry, applied the CISG to a dispute between a Japanese buyer and a Russian seller. In those cases, the private international law of the forum lead to the application of Victorian law and Russian law, respectively, and the CISG was applied on the basis of Article 1(1)(b).

However, China has declared a reservation under Article 95, and therefore Article 1(1)(b) is not part of China’s CISG. Then how does the CISG get applied in China to cases involving Japanese parties? There is a case in which the parties chose the law of People’s Republic of China as the governing law. The court interpreted that the law of PRC includes the CISG. This presumably is a case where the court allowed “opting-in” by the parties.

There are also some cases that applied the CISG because the parties based their arguments before the tribunal on the CISG. For example, one CIETAC tribunal ruled that

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14 However, in Italy 19 April 1994 Florence Arbitration proceeding (Leather/textile wear case), CLOUT no. 92, translation available at http://cisgw3.law.pace.edu/cases/940419i3.html, a case involving a dispute between an Italian seller and a Japanese buyer, the parties chose “Italian law” as governing law. The majority of the tribunal decided to apply not the CISG but domestic Italian law, although one of the three arbitrators dissented.


16 The application of the CISG as lex mercatoria independent of the requirements of Article 1, would be an interesting way. Although I could not find any case involving a Japanese party applying the CISG as lex mercatoria, there was one New Zealand case that came close (New Zealand 27 November 2000 Court of Appeal Wellington (Hideo Yoshimoto v. Canterbury Golf International Ltd), CLOUT no. 702, also available at http://cisgw3.law.pace.edu/cases/001127n6.html). It involved a contract between a Japanese seller and a New Zealand buyer for the sale of “shares” of a company. This case is clearly outside the scope of the CISG because Article 2(d) explicitly excludes the sale of shares from the application of the CISG. Nonetheless, the court considered the application of Article 8 of the CISG (together with Article 4.3 of the UNIDROIT Principles of International Commercial Contracts 1994). At the end, the court decided not to do so, because such decision would most likely have been overturned by the Privy Council in England. However, the court gives the impression that otherwise it would have applied the CISG.

“[b]oth the [Buyer] and the [Seller] analyzed the rights and responsibilities based on the law of People’s Republic of China and the CISG. Accordingly, the Arbitration Tribunal held that the law of People’s Republic of China as well as the CISG should be the applied to this case.”\textsuperscript{18} This would be another case of “opting-in”.\textsuperscript{19}

As can be seen from these examples, it seems that Japanese business is starting to appreciate the merits of CISG, either by opting-in to the CISG or arguing on the basis of CISG, especially in the context of trading with China, and likely in the context of trading with the diverse legal systems of Asia.

As for the nature of the dispute, they are all usual disputes such as seller claiming payment of price, or buyer claiming damages for delivery of non-conforming goods. They are decided upon the facts rather than on interpretive issues of the CISG. One interesting trend in the Chinese cases mentioned above is that in all of the CIETAC decisions, the claimant were Chinese parties, whereas in all if the court cases, the plaintiffs were Japanese parties. I do not know if any conclusions can be drawn from this.

V. CONCLUSION

In this paper, I have stressed that the most direct allure of the CISG for Japan lies in its success and the benefits that it brings.\textsuperscript{20} The success of the CISG has turned the legal community into admirers of the CISG. The benefit derived from the “Asia factor” is easing the business community’s hesitation about the CISG.

In this process, China is playing a major role. Even after Japan accedes to the CISG, there is not doubt that Chinese cases will have to be reckoned with in the uniform interpretation of the CISG. I look forward to further dialogue in the ensuing years.

\textsuperscript{18} China 23 July 1997 CIETAC Arbitration proceeding (Polypropylene case), translation available at \url{http://cisgw3.law.pace.edu/cases/970723c1.html}.
\textsuperscript{19} On this CIETAC practice, see WU, supra note 11, at 5-6.
\textsuperscript{20} For a similar “realist” argument regardless of a slightly different context, see SÔICHRÔKOZUKA, Contract Law in East Asia at the turn of the Century: Lawyers and Globalisation, in: Shinya Imaizumi et al. (eds.), Globalization and Economic Law Reforms: Perspectives from India, Mexico, Thailand and East Asia, JRP Series No. 136 (Chiba, Institute of Developing Economies, 2005) and SÔICHRÔKOZUKA, Economic Implications of Uniformity of Law, in: Jürgen Basedow / Toshiyuki Kono (eds.), An Economic Analysis of Private International Law (Mohr Siebeck, 2006).
LIST OF CASES (involving Japanese Parties)

Australia

24 April 2003 Supreme Court of Victoria
(Playcorp Pty Ltd v. Taiyo Kogyo Limited) (Toys case),

China

Court Decisions

August 1994 Xiamen Intermediate People’s Court
(San Ming v. Zhanzhou Metallic Minerals),
see http://cisgw3.law.pace.edu/cases/940800c1.html.

December 1994 Fujian Higher People’s Court
(San Ming v. Zhanzhou Metallic Minerals),
translation available at http://cisgw3.law.pace.edu/cases/941200c1.html

19 February 2001 Jiangsu Higher People's Court
(Tai Hei v. Shun Tian),
translation available at http://cisgw3.law.pace.edu/cases/010219c1.html

27 November 2002 Higher People’s Court of Ningxia Hui
(Xinsheng Trade Company v. Shougang Nihong Metallurgic Products),
translation available at http://cisgw3.law.pace.edu/cases/021127c1.html

CIETAC Awards

20 July 1993 CIETAC Arbitration proceeding
(Shaping machine case),

7 November 1996 CIETAC Arbitration proceeding
(Stone products case),
translation available at http://cisgw3.law.pace.edu/cases/961107c1.html

2 April 1997 CIETAC Arbitration proceeding
(Wakame case),
translation available at http://cisgw3.law.pace.edu/cases/970402c1.html

23 July 1997 CIETAC Arbitration proceeding
(Polypropylene case),
translation available at http://cisgw3.law.pace.edu/cases/970723c1.html

21 October 2005 CIETAC Arbitration proceeding
(Sheet metal producing system case),
translation available at http://cisgw3.law.pace.edu/cases/051021c1.html
France

22 April 1992 Appellate Court Paris
(Fauba France FDIS GC Electronique v. Fujitsu Microelectronik GmbH), translation available at http://cisgw3.law.pace.edu/cases/920422f1.html

Italy

19 April 1994 Florence Arbitration proceeding
(Leather/textile wear case), CLOUT no. 92, translation available at http://cisgw3.law.pace.edu/cases/940419i3.html

New Zealand

27 November 2000 Court of Appeal Wellington
(Hideo Yoshimoto v. Canterbury Golf International Ltd), CLOUT no. 702, also available at http://cisgw3.law.pace.edu/cases/001127n6.html

Russia


Spain

5 April 2006 Supreme Court, CLOUT no. 735, available at http://cisgw3.law.pace.edu/cases/060405s4.html

31 October 2006 Supreme Court, CLOUT no. 736, available at http://cisgw3.law.pace.edu/cases/061031s4.html

ZUSAMMENFASSUNG


Der wichtigste Grund für die jetzige Kursänderung ist der phänomenale Erfolg des CISG. Auch ohne einen formellen Beitritt Japans hat das CISG einen zunehmenden Einfluß auf das japanische Recht genommen. Zum einen wird die Interpretation des Zivilgesetzes zunehmend durch das CISG beeinflußt. Zum anderen hat die japanische Regierung damit begonnen, das Schuldrecht zu überarbeiten. Diese Entscheidung war direkt oder indirekt beeinflußt durch den Erfolg des CISG.


(dt. Übersetzung durch die Red.)