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# Applicable Law Related to Joint Work: Focus on *Actoz Soft Co. Ltd. v. ChuanQi IP Co. Ltd.*

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## Abstract

The *Actoz Soft* case is the first landmark case to deal with the governing law applicable to the succession of copyright by a split-off. In *Actoz Soft* case, the succession of economic rights by a split-off was held to be governed by *lex loci protectionis* under the former Article (24) of the Korean Act on Private International Law because it was not covered by Article 5(2) of the Berne Convention. The *Actoz Soft* Court held that the succession of economic rights by the split-off was governed by the law of the State where the defendant was incorporated. The Court observed the possibility that the defendant could succeed to the economic rights within the China of the company C. However, if the successibility of economic rights by the split-off is characterized as the transferability of copyright, the applicable law would be Chinese Company Law under *lex loci protectionis*.

## Keywords

Choice of law – Actoz Soft – ChuanQi IP – *lex loci protectionis* – split-off – joint work – joint authorship – applicable law

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## 1 Introduction

In 2024, the U.S. and China will dominate the global gaming market, with $128.1 billion and $123.6 billion, respectively.[1] Japan is in third place with $48 billion, maintaining its position as a traditional gaming powerhouse.[2] The United Kingdom ($16.1 billion) and South Korea ($13.4 billion) are fourth and fifth, respectively, and play a significant role within the European and Asian markets for the gaming industry.[3] The Asia-Pacific region is set to account for 53% of the global gaming users, with this figure expected to grow by 4% to reach 1.8 billion by 2024. This growth is primarily driven by an increase in users in Central and Southeast Asian markets.[4]

In this regard, *Actoz Soft Co. Ltd. v. ChuanQi IP Co. Ltd.* (hereinafter "*Actoz Soft*" case)[5] is noteworthy because it dealt with the case arising out of a foreign investor and a domestic game developer. The *Actoz Soft* case can be a leading one demonstrating choice of law rules relating to a joint work.

In determining the governing law in copyright cases with foreign elements, it was difficult to ascertain the Korean courts' established position because there were no meaningful decisions from the Korean Supreme Court prior to the *Actoz Soft* case.[6]

At the outset, this Article explains the substantive and procedural facts of Actoz Soft case. Next, it deals with the issues raised before the Korean Supreme Court and the Court's holdings in Actoz Soft case. Subsequently, the Article analyzes the holdings of the *Actoz Soft* Court. Finally, in concluding this Article, it proposes that *lex loci protectionis*,[7] rather than the law of the State where a newly created company is incorporated by a split-off, be applied to the transferability of economic rights by the split-off.

1 Korea Creative Content Agency, *A Statistical Overview of the Global Gaming Industry in 2024*, 69 Global Game Industry Trend 33 (February 13, 2025).

2 *Id.*

3 *Id.* at 34.

4 *Id.* at 36.

5 Korean Supreme Court, decided on May 9, 2024 (2020 Da 250561).

6 Ju Yoen Lee, *A Review of Korean Court's Decisions on the Governing Law in International Intellectual Property Cases*, 27 KOPILA Journal 109 (2021).

7 In-Ho Kim, *The Application and Limitation of the Lex Loci Protectionis* (*the Law of the Country for which Protection Is Sought*) *for the Infringement of Intellectual Property Rights*, 429 Human Rights and Justice 92–115 (2012).

## 2 Substantive Facts

The parties in Actoz Soft cases are as follows:

The plaintiff is Actoz Soft Co. Ltd.[8] (hereinafter "plaintiff A"), which is a Korean company. Its CEO is Guo Haibin. It has been a subsidiary of Shanghai Shanda Games, whose trade name was changed to Shengqu Games later. The defendant is ChuanQi. IP (传奇 IP) Co. Ltd.[9] (hereinafter "defendant B"), which is a Korean company. In this case, WeMade Co. Ltd.[10] (hereinafter "C"), which is a Korean company. Here, Game X and X' (热血传奇) are Legend of Mir 2 and Legend of Mir 3, respectively.

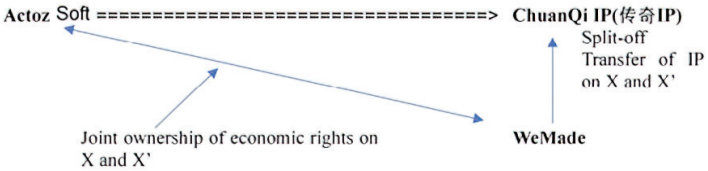



FIGURE 1

On December 26, 2003, the plaintiff A (a Korean company) brought a lawsuit against the third party C (a Korean company), seeking a preliminary injunction against C from using a computer game work (hereinafter 'game X') on the grounds that C's act of licensing the game X to another company without the consent of the plaintiff A as a co-author infringed the plaintiff A's copyright. On April 29, 2004, a settlement during the trial was entered into between the plaintiff A and the third party C in the above case.

The main content of the settlement is that C will not ask for the transfer of the plaintiff A's share of the game works '(Game X' and Game X)' (hereinafter collectively referred to as "each of the works") of the plaintiff A, will conduct business and seek customers independently in relation to each of the works, and will share the revenue generated by each of the works with the plaintiff A and the third party C in the proportions set forth in the settlement.

Company C decided to incorporate the defendant B by splitting off the business of each work in this case, and drew up a split-off plan that included the copyrights of each work in this case in the 'IP list to be transferred', and after passing the resolution of the shareholders' meeting, the split-off registration

8 Actoz Soft, *available at* https://www.actoz.com/.
9 ChuanQi IP, *available at* https://chuanqico.com/.
10 Wemade, *available at* https://wemade.com/kr/.

and the incorporation registration of the defendant B were completed on May 23, 2017 (hereinafter referred to as the 'split-off in this case').

Subsequently, from around June 2017 to May 2018, the defendant B entered into license agreements with the third party companies in the People's Republic of China (hereinafter referred to as the "Chinese companies"), whereby the defendant B authorized the Chinese companies to use each of the works at issue to develop mobile games or web games. The defendant B's license agreements with the Chinese companies are either worldwide in scope or limited in geographical scope to certain territories, including China.

When the defendant B entered into the above-mentioned license agreements, the defendant B communicated with the plaintiff A by sending the agreements to the plaintiff A around the time of signing. However, the plaintiff A did not agree to the license agreement on the grounds that the defendant B did not inform the plaintiff A of the identity of the other parties to the license agreement or that the defendant B's notification was made only after the fact.

## 3 Procedural Facts

### 3.1 *Plaintiff A's Prima Facie Case*

The plaintiff A claimed against the defendant B that the defendant B did not agree to succeed to C's share of the economic rights in each of the works in this case due to the split-off of the works, and therefore, the defendant B jointly infringed C's economic right (i.e., a right to create a derivative work) with a third party by allowing the third party to use each of the works in this case for mobile game development even though the defendant B was not the owner of the economic rights.

#### 3.1.1 Plaintiff A's Primary Claims

The plaintiff A brought a lawsuit against the defendant B to, primarily, seek an injunction, indirect coercion, and damages (100 million Korean won as a partial claim), while claiming that the defendant B infringed its economic right (i.e., reproduction right) by unauthorizedly reproducing each of the works in this case and requested the destruction of the reproductions.

#### 3.1.2 Plaintiff A's 1st Subsidiary Claims

The plaintiff A secondarily claimed against the defendant B that, even if the defendant B is the successor of the economic rights of each of the works in the case from C, the defendant B has participated in the infringement of the plaintiff A's economic right (i.e., a right to create a derivative work) in the form

of aiding and abetting by allowing a third party to use each of the works in the case for mobile game development without an agreement with the plaintiff A, who is the co-author of each of the works in the case, and sought a cessation of infringement and damages (100 million Korean won as a partial claim). Alternatively along with the claims, the plaintiff A sought a cessation of the infringement of the right of settlement under Article 48(1) of the Korean Copyright Act.[11]

3.1.3 Plaintiff A's 2nd Subsidiary Claim

The plaintiff A, thirdly, sought a distribution of an amount equal to 50% of the plaintiff's share of the royalties (100 million Korean won as a partial claim) – the profits earned from the defendant's licensing of each of the works in this case to third parties.

### 3.2 *Seoul Central District Court's Decision*[12]

3.2.1 Court's Determination as to the Plaintiff A's Primary Claims

The Seoul Central District Court dismissed the Plaintiff A's primary claims.

3.2.2 Split-Off of the Company C and the Status of the Defendant B

3.2.2.1 *Governing Law*

3.2.2.1.1 Plaintiff A's Claims

The Berne Convention for the Protection of Literary and Artistic Works (1886) (hereinafter "Berne Convention"),[13] to which the Republic of Korea and China are parties, adopts the principle of national treatment and the law of the state where protection is claimed, so that a person protected by copyright under the Berne Convention may demand that any Contracting State grant him the protection accorded to its nationals by the laws of that State, and may not demand protection beyond that accorded to its nationals by the laws of that State. However, since the Chinese Company Act does not provide for the split-off of a company and therefore does not recognise blanket succession in the case of split-off, the succession of economic rights by split-off under the Korean

11 It prescribes that an "[a]uthor's property right to a joint work may not be exercised without the unanimous agreement of all the holders of author's property right. Each holder of author's property right shall not be entitled to transfer by assignment or pledge his/her share of author's property right without the consent of the other authors. In this case, each holder may not prevent the agreement from being reached or refuse the consent in bad faith." *See* Korean Copyright Act, Article 48(1).

12 Seoul Central District Court, decided on 25 January 2019 (2017 Gahap 576442).

13 Wipo, Berne Convention for the Protection of Literary and Artistic Works, *available at* https://www.wipo.int/treaties/en/ip/berne/.

Commercial Code does not preclude the application of the Chinese Copyright Act, which provides that economic rights cannot be transferred without the consent of the co-authors. If it were to be ruled out, the Korean company would be able to enjoy rights that the Chinese company cannot enjoy, which would exceed the protection provided by the Berne Convention. Therefore, in China, the succession of the economic rights in each of the works from the company C to the defendant would require an agreement with the plaintiff.

3.2.2.1.2 Determination of Applicable Law

According to Article 5(2) of the Berne Convention and Articles 3 and 4 of the World Intellectual Property Organisation Copyright Treaty (hereinafter "WCT"),[14] which supplements the Berne Convention, the scope of protection and remedies for computer program works protected as literary works are governed by the laws of the country where protection is claimed. Furthermore, the term 'the country where protection is claimed' means, in relation to an infringement of an economic right, 'the country where protection is claimed against infringing acts within its territory', i.e., the 'infringing country'. However, Article 14 *bis*(2)(a) of the Berne Convention only provides that "Ownership of copyright in a cinematographic work shall be a matter for legislation in the country where protection is claimed."[15] It does not provide for other works in general. Therefore, the questions of ownership, creation, lapse, and transfer of copyright must be determined under the law of the place where the work was first published or the law of nationality, such as the author's place of residence or domicile. If Article 5(2) of the Berne Convention were to be interpreted broadly to mean that the attribution of copyright depends on the place of infringement, as the plaintiff suggests, the same work could have different copyright owners under the laws of different infringing countries, leaving the third parties seeking to obtain a license to exploit the work in an unstable position as to which party they should enter into a license agreement with. Therefore, whether the split-off in this case has resulted in the defendant's blanket succession to the copyright in each of the works at issue is to be

14 Wipo Copyright Treaty (WCT), https://www.wipo.int/treaties/en/ip/wct/.

15 Article 14 bis (1)(a) prescribes:

(1) Without prejudice to the copyright in any work which may have been adapted or reproduced, a cinematographic work shall be protected as an original work. The owner of copyright in a cinematographic work shall enjoy the same rights as the author of an original work, including the rights referred to in the preceding Article.

(2)(a) Ownership of copyright in a cinematographic work shall be a matter for legislation in the country where protection is claimed.

determined in accordance with the Korean Commercial Act applicable to both the plaintiff and the defendant, both of which are Korean corporations, and the Korean Copyright Act, which is the law of nationality for the ownership of copyright in each of the works at issue.

3.2.2.1.3 Determination of the Effect of the Split-Off

Under the Korean Commercial Act, in the event of a corporate division, the rights and obligations of the company which undertook a split-off are to be comprehensively succeeded to the company established as a result of the division, regardless of whether the nature of the legal relationship is private or public, in accordance with the division plan, but those that are not permitted to be transferred due to their nature are excluded from such succession.[16]

According to the admitted facts, the company C which undertook the split-off was physically divided on 23 May 2017, and the copyright and related rights and obligations of the company C in each of the works at issue listed as transferred in the division plan, as well as the rights and obligations arising from the settlement in the trial of this case, were transferred to the newly formed company, the defendant, on the same day.[17]

The plaintiff A argues that, in light of the provisions of Article 48(1) of the Copyright Act, which states that the copyright in a jointly authored work cannot be transferred without the consent of the other co-authors, and the purpose of the provision to protect co-authors with close personal ties, the copyright in each of the works in this case cannot be transferred to the defendant, the new company after the split-off, without the consent of the plaintiff, the co-author.

However, the court of the first instance held that the succession by the split-off was valid for the following reasons:

(i) The succession of rights and obligations due to the split-off of a company was different in legal nature from the transfer corresponding to a specific succession, as it was an effect that occurred in accordance with the provisions of the law due to the division of a company without the premise of a separate transfer act. In other words, the effect of the division was a comprehensive succession in nature, so the rights and obligations listed in the division plan as the subject of division were naturally succeeded

16 *See* Korean Supreme Court, decided on 12 February 2015 (2012 Du 14729); Korean Supreme Court, decided on 27 June 2013 (2012 Du 11782); Korean Supreme Court, decided on 25 August 2011 (2010 Da 44002).

17 Korean Commercial Act, Article 530–10.

to the new company after the division without the transfer of individual property.

(ii) There might be exceptional cases where the nature of the right and obligation did not permit its transfer by the split-off.[18]

Article 45(1) of the Copyright Act provides that the economic rights can be transferred in whole or in part, and Article 14(1) of the Copyright Act provides that the moral rights belong to the author only, but does not provide for the economic rights, and in light of Article 54(1) of the Copyright Act, which provides that the transfer of copyright can only be registered and cannot be enforced against a third party if it is not registered, it cannot be said that the economic rights are rights that are inherently inalienable. Therefore, after May 23, 2017, the economic rights in each of the works were transferred from the company C to the defendant by the split-off.

3.2.2.1.4 Conclusion on the Plaintiff A's Subsidiary Claims

Inasmuch as the defendant has succeeded to the status of co-author of each of the works at issue from the third party C by virtue of the split-off, the plaintiff A's subsidiary claims, which are based on a different premise, are therefore rejected.

3.2.3 Determination as to the First Subsidiary Claims of the Plaintiff A

3.2.3.1 *Governing Law for the Determination of Copyright Infringement*

Pursuant to Article 5(2) of the Berne Convention and Articles 3 and 4 of the WCT supplementing it, the scope of protection and remedies for computer program works protected as literary works are governed solely by the law of the country where protection is claimed, where 'the country where protection is claimed' means the country of infringement.

On the facts of the case, the defendant has entered into 12 license agreements with the companies based in China, with the first listed agreement covering 'all countries and regions' and the other 11 license agreements limiting the geographical scope of the license to China, so the scope of the effect of the agreements and the place of infringement could be either the whole world, including the PRC, or the PRC. However, since the main issues in this case concern the ownership of copyright and the licensing of joint works without the consent of the other co-authors, all of which are related to the legal

18 *See* Korean Supreme Court, decided on 25 August 2011 (2010 Da 44002) (holding that the status as a member of joint contractees of a construction contract is an non-patrimonial and exclusive right and obligation that cannot be transferred).

relationship between the plaintiff and the defendant, both domestic entities, and the injunction and damages claims are also against the defendant, a domestic entity, there is no room for the application of Chinese law, a foreign law, due to the application of the Berne Convention in this case. Therefore, the applicable law in this case is domestic law.

#### 3.2.3.2 *Admitted Facts*

It is undisputed between the parties, or may be admitted from the description in Exhibits 3, 4, 5, 8 and 10 and the pleadings and trial hearings as a whole, that the defendant sent the plaintiff a notice of the conclusion of each of the twelve license agreements before and after the conclusion of the agreements and a contract listing the counterparty, but did not list the counterparty sometimes when sending the license agreements prior to the conclusion of the agreements.

#### 3.2.3.3 *Agreement or Consent of the Co-Author*

The economic rights in a joint work may not be exercised except by agreement of all the authors of the work, and no share in the work may be transferred or used for the purpose of a security interest without the consent of the other authors.[19] In this case, each holder of economic rights may not, in good faith, prevent the establishment of the agreement or refuse to give consent.[20] The next question is whether the defendant's act of licensing constitutes copyright infringement against the plaintiff A.

As the admitted facts show, the defendant B entered into licensing agreements with the third parties for each of the works at issue, and contacted the plaintiff A before and after the conclusion of the agreements by sending the plaintiff A copies of the licensing agreements it had concluded or was concluding with the third parties.

However, the plaintiff A has only claimed in the course of the proceedings that it did not consent to the conclusion of the agreements because the defendant B did not inform it of the parties to the licensing agreements, or that it did not consent to the licensing agreements because the defendant B's notifications were merely after-the-fact notifications that it had concluded licensing agreements with the third parties. It is acknowledged that the defendant B did not inform the plaintiff A of the full terms and conditions of the license agreement in advance, nor did defendant B inform the plaintiff A of the agreement's conclusion. However, in light of the contents of the various contracts between

19 See the first sentence of Article 48(1) of the Korean Copyright Act.

20 See the second sentence of Article 48 (1) of the Korean Copyright Act.

the plaintiff A and the company C, the circumstances of their conclusion, and the settlement in this case, it appears that the plaintiff, as a co-author of each of the works in this case, was primarily concerned with securing a share in the sales of the works and securing profits from them in connection with the management of each of the works in this case, and that the settlement clause in this case also provides that the plaintiff A and the company C, although they are co-authors of each of the works in this case, will operate and seek customers respectively.

The purpose of requiring the exercise of rights of co-authors of a joint work by agreement of all the authors of the joint work is to respect the rights and wishes of the authors and to ensure that the work is not used separately against the will of the authors. On the other hand, the purpose of the latter part of Article 48(1) of the Copyright Act, which states that each owner of a joint work may not prevent the agreement from being reached or refuse the consent in bad faith, is to consider the fact that if the consent of all copyright holders is too strictly enforced, the result may be that some copyright holders may refuse to give consent without reasonable reasons and the use of the work may not be activated, even though such use is necessary for the fair use of the work among the purposes set forth in Article 1 of the Copyright Act.

According to the facts of the case, the company C whose status was succeeded by the plaintiff A or the defendant B under Article 7 of the settlement clause in the trial of this case should share the revenue from the contracts they entered into independently in a certain proportion, according to the example of the contract with the company D in the case of the plaintiff A's independent search for its clients, and according to the example of the contract with the Company E in the case of the company C's independent search for its clients. Since the Framework Agreement was concluded between the plaintiff A and the defendant B on 10 February 2000, shortly after the incorporation of the company C, the plaintiff A and the company C have entered into numerous agreements in the form of the first agreement, the second agreement, the third agreement, and an additional agreement to clarify the terms of the agreement, in order to agree on the share of the company C or the share of the sales of the company C.

The trial settlement in this case is mainly about the distribution of revenues and cost-sharing related to each of the works in question, rather than about the attribution or exercise of copyright itself. Based on the course of the proceedings and the overall nature of the oral proceedings, it appears that, although there has been no dispute between the plaintiff A and the company C

since the trial settlement, the plaintiff and the company C have been engaged in their respective business dealings, with each endeavoring to find business partners based on the premise of revenue or profit sharing in accordance with the trial settlement.

In light of these circumstances, as long as the provision of the trial settlement, which provides for revenue sharing based on the proportion of sales generated by each of the plaintiff A and the company C, remains in effect, any act by the other party to refuse to agree on the use of each of the works in this case without a reasonable reason when the other party requests an agreement on the customers found by the plaintiff A and the Company C should be regarded as an act of obstructing the establishment of an agreement in violation of the good faith required by the latter part of Article 48(1) of the Copyright Act.

A different interpretation would allow a party that did not wish to be bound by the revenue or profit sharing percentages set out in the trial settlement to refuse to agree to license the other party's prospecting efforts and to insist on a more favorable distribution ratio, which would render the trial settlement meaningless. To the extent that either the plaintiff A or the Company C has sought out customers through its own efforts, the settlement is intended to honor those efforts and the results of those efforts. This is also supported by the fact that, although the terms of the settlement provide that the plaintiff A and the Company C are subject to mutual prior notice and consultation obligations, there is no language in the settlement that suggests that the exercise of economic rights is restricted or prohibited by the failure to fulfill these obligations.

Therefore, as long as the defendant B notified the plaintiff A before and after the conclusion of the license agreement and expressed its intention to pay a share according to the proportion stipulated in the trial settlement, the refusal to agree or consent to the license agreement does not constitute a reason for refusing consent under the latter part of Article 48(1) of the Korean Copyright Act.

3.2.3.4 *Conclusion as to the First Subsidiary Claims of the Plaintiff A*

Accordingly, even if the defendant has licensed the use of each of the works at issue to a third party, this cannot be assessed as an act of copyright infringement against the plaintiff A, and therefore the plaintiff A's first subsidiary claim on the basis that the defendant B has infringed the plaintiff A's copyright is rejected.

#### 3.2.4 Determination of the Second Subsidiary Claim of the Plaintiff A

It is undisputed between the parties that the defendant B has received royalties from the third parties with whom it has entered into license agreements as set out in the table below, or it can be accepted from the description in Exhibits 74 to 81 and from the oral arguments as a whole (as the defendant B does not dispute the exchange rate applied by the plaintiff A, the amount calculated according to the exchange rate applied by the plaintiff A is set out below). According to the calculation, the amount of the distribution to be received by the plaintiff A from the defendant is KRW 7,199,866,331.

#### 3.2.5 Conclusion

Accordingly, the defendant B is obliged to pay the plaintiff A the sum of KRW 7,199,866,331 out of the sum of KRW 100,000,000 sought by the plaintiff A, plus delay damages at the rate of 5% per annum from 24 November 2017, the day after service of the complaint in this case, until January 25, 2019, the date of rendition of this judgment, when the defendant B is deemed to have substantially contested the existence and scope of its performance obligation. Since the defendant B shall be obliged to pay delay damages at the rate of 5% per annum prescribed by the Korean Civil Code until the day of payment, and 15% per annum prescribed by the Special Act on the Promotion of Litigation, etc. until the day of payment, it is hereby ordered that the plaintiff A's primary claims be dismissed, its subsidiary claims be affirmed within the scope of the court's findings and conclusion, and the remaining claims be dismissed.

### 3.3 *Seoul High Court's Decision*[21]

The Seoul High Court affirmed the Seoul Central District Court's dismissal of the plaintiff A's primary claims and first subsidiary claims, and upheld the District court's decision affirming the plaintiff A's second subsidiary claim. The court of the second instance held as follows.

#### 3.3.1 Determination as to the Plaintiff A's Primary Claims

With respect to the plaintiff A's primary claims, the governing law of whether the defendant B succeeds to the economic rights in each of the works at issue from C is the law of the Republic of Korea, and the defendant B, as a company formed by a split-off under the Korean Commercial Code, is the successor in interest to the economic rights of C (the split-off company) .

21 Seoul High Court, decided on 25 June 2020 (2029 Na 2013948).

3.3.2 Determination as to the Plaintiff A's 1st Subsidiary Claims

The governing law is the law of the Republic of Korea, as the first subsidiary claim is brought by the plaintiff A, a domestic corporation, against the defendant B, a domestic corporation, in relation to the attribution of copyright and the licensing of a joint work without the consent of the joint author.

Since the plaintiff A has prevented the establishment of an agreement in bad faith with respect to the defendant B's exercise of its economic rights, the defendant B's conduct cannot be considered as an act of copyright infringement against the plaintiff A under the latter part of Article 48(1) of the Korean Copyright Act.

3.3.3 Determination as to the Plaintiff A's 2nd Subsidiary Claim

With respect to the plaintiff A's 2nd subsidiary claim, the defendant B is obliged to distribute to the plaintiff A a portion of the royalties received from the third party, which is 20%, as set by the trial settlement in this case.

## 4 Korean Supreme Court's Decision[22]

### 4.1 *Issues*

The issues in this case are as follows:

(i) The governing law applicable to the succession of copyright in the event of a company division, when not provided for in the Berne Convention, to which the Republic of Korea is a party;

(ii) Whether *lex loci protectionis* should be applied as the governing law in accordance with Article 24 of the former Act on Korean Private International Law in terms of the establishment, content, and transferability of copyright, and what kinds of procedure and form are required for transfer and attribution of copyright;

(iii) Whether the governing law applicable to legal relations such as contracts that gave rise to the transfer of copyright can be determined pursuant to Article 24 of the former Act on the Korean Private International Law and whether the governing law applicable to them must be determined separately;

(iv) The meaning of 'country where protection is claimed' as defined in Article 5(2) of the Berne Convention, which the Republic of Korea is a party;

22 Korean Supreme Court, decided on 9 May 2024 (2020 Da 250561).

(v) Whether Article 5(2) of the Berne Convention applies first in cases involving foreign elements of copyright protection and, accordingly, lex loci protectionis (the law of the place of infringement) is the governing law; and

(vi) Whether the governing law, as determined in accordance with the private international law of the forum, applies to matters where Article 5(2) of the Berne Convention, does not exclude or directly stipulate the application of the governing law.

## 4.2 *Holdings*[23]

### 4.2.1 Determination on the Plaintiff A's Primary Claims

The plaintiff A's primary claims are based on the premise that the defendant B did not succeed to the economic rights of each of the works in the PRC from C despite the split-off. Whether the defendant B succeeded to C's economic rights in the PRC by the split-off constitutes a legal relationship with foreign elements, and the governing law applicable to the legal relationship must be determined.

The international treaties to which the Republic of Korea is a party generally take precedence over civil or commercial law or private international law, and the governing law, as determined in accordance with the private international law of the forum, shall apply to matters that the international treaty does not exclude or directly stipulate.[24] The Berne Convention, to which the Republic of Korea is a party, provides for the scope of protection and methods of remedy for copyright, but does not provide for the succession of copyright upon the division of a company, and therefore, the private international law of the forum shall apply to such matters.

Article 24 (currently Article 40) of the former Korean Act on Private International Law (prior to its comprehensive amendment by Act No. 18670 of 4 January 2022, hereinafter referred to as the 'former Private International Law') provides that 'the protection of intellectual property rights shall be governed by the law of the place of infringement,' thus adopting *lex loci protectionis*. As the establishment and content of copyright, whether copyright is transferable, and whether any procedure or form of performance is required for the transfer and attribution of copyright are closely related to the general effect of copyright

23 Hyo-Jeong Han, *Governing Law Applicable to Copyright Disputes Including Foreign Elements: An Analysis on Legend of Mir 2 Case Rendered by the Korean Supreme Court*, Copyright Trend, Korea Copyright Commission, No. 10, pp. 1–4 (2024).

24 *See, e.g.*, Korean Supreme Court, Decision of January 13, 2022 (2021 Da 269388).

and the protection of copyright itself, the law of the State where protection is claimed shall be applied to these matters in accordance with Article 24 of the former Private International Law, unless there are special circumstances.

On the other hand, a contract or other legal relationship that is the cause of the transfer of copyright cannot be governed by Article 24 of the former Private International Law because its mere object is copyright and does not concern the general effect of copyright or the protection of copyright itself, and the governing law to be applied to such a contract or other legal relationship must be determined separately.

Whether the defendant succeeds to the company C's economic rights in the PRC in respect of each of the works at issue in this case by virtue of the split-off of the works shall be governed by the applicable law determined in accordance with the international private law of the Republic of Korea, the seat of the forum.

As the legal relationship giving rise to the succession of economic rights – the split-off in this case – concerns the establishment of a legal entity, the governing law shall be the Commercial Code of the Republic of Korea, which is the governing law of the defendant B's establishment, pursuant to the text of Article 16 (currently Article 30) of the former Private International Law.[25] Since the newly created company succeeded to the rights and obligations of the Company C as stipulated in the split-off plan (Article 530-10 of the Korean Commercial Act[26]), it is reasonable to assume that the defendant succeeded to the company C's economic rights in China as stipulated in the division plan, unless there were special circumstances.

However, the law of the state where protection is claimed is the governing law pursuant to Article 24 of the former Private International Law, whether the Company C can transfer its economic rights in China and what procedures or forms are required for transfer and attribution of the economic rights, and as

25 Article 30 of the Korean Act on Private International Law ("Corporations and Organizations") prescribes: "Corporations and organizations shall be governed by the law applicable to the establishment thereof: Provided, That where corporations or organizations established in foreign countries have their principal offices located in the Republic of Korea or conduct their principal business activities in the Republic of Korea, such corporations and other organizations shall be governed by the law of the Republic of Korea."

26 Article 530-10 of the Korean Commercial Act ("Consequential Effect of Division or Merger after Division") stipulates: "A newly incorporated company by simple division, succeeding company after division or newly incorporated company by merger after division shall assume the rights and obligations of the divided company, as prescribed by a division plan or agreement for the merger after division."

*lex loci protectionis* in this case is the law of China, the law of China should be applied to determine the above.

Nevertheless, because both the plaintiff A and the defendant B are domestic corporations, the lower court determined that the governing law of whether the defendant B succeeded to the economic rights of the company C's respective works within China in this case due to the split-off of the works was Korean law, and concluded that the defendant succeeded to its economic rights accordingly. The lower court misunderstood the jurisprudence on the governing law of the transfer and attribution of economic rights and failed to conduct the necessary examination, which affected the judgment. The appellant's grounds of appeal to point this out are well founded.

As the Court accepts the appellant's ground of appeal to the effect that the lower court erred in misapprehending the applicable law in its determination that the defendant B succeeded to the company C's economic rights by virtue of the split-off of the case, the Court omits to consider the remaining grounds of appeal concerning the correctness of this part of the lower court's judgment, which is premised on the application of Korean law.

4.2.2 Regarding the Plaintiff A's First Subsidiary Claims

4.2.2.1 *Grounds for Appeal Regarding the Applicable Law of Joint Infringement of Economic Rights*

The plaintiff A made its first subsidiary claims against the defendant B to stop the defendant B from licensing the works to the third parties.

The part relating to the defendant B's licensing of the works at issue to the Chinese company is that the defendant B has jointly infringed the plaintiff A's economic rights in China by allowing the Chinese company to use the works at issue in China. As this constitutes a legal relationship with foreign elements, the governing law to be applied to the legal relationship must be determined.

Article 5(2) of the Berne Convention, the international treaty to which the Republic of Korea is a party, provides that 'the scope of protection and the remedies for copyright shall be determined solely by the law of the country where protection is claimed.' The term 'country where protection is claimed' means the country of infringement, i.e., the country where protection is claimed for infringing acts within its territory. Accordingly, in cases involving foreign elements of copyright protection, Article 5(2) of the Berne Convention takes precedence, and the law of the State where protection is claimed (the law of the place of infringement) is the governing law, while the governing law determined in accordance with the private international law of the forum is applied to matters where the Berne Convention does not exclude the application of the governing law or directly provide for its application.

In light of the above jurisprudence and the record, both Korea and China are parties to the Berne Convention, and since the plaintiff A is claiming protection in China on the grounds that the defendant B aided and abetted the Chinese company's infringement of the plaintiff A's economic rights in China, the governing law is the law of China, which is the law of the country where protection is claimed (the law of the place of infringement) under Article 5(2) of the Berne Convention.

Nevertheless, the lower court determined the applicable law for the protection of the plaintiff A's economic rights to be the law of the Republic of Korea, without examining the country in which the plaintiff had infringed its economic rights and was claiming protection for them, and only targeted the defendant B's act of licensing, and determined whether the obligation to cease infringement and compensate for damages was established accordingly. The lower court misunderstood the jurisprudence on the governing law of joint infringement of economic rights and failed to conduct the necessary examination, which affected the judgment. The appellant's arguments on appeal are well founded.

On the other hand, the record shows that in this case, where the determination of the governing law is at issue, the plaintiff A seeks to stop the defendant B from licensing each of the works in question to third parties without limiting the geographical scope. As there are foreign elements to the copyright protection and *lex loci protectionis* applies, it is necessary for the plaintiff A seeking copyright protection to clearly specify the place of infringement – such as limiting the geographical scope of the licensing activity for which suspension is sought to the country of infringement, in the complaint, and to conduct a hearing after determining the governing law on that basis, so the lower court should consider this issue after remand.

#### 4.2.2.2 *Remaining Grounds of Appeal*

As the Court accepts the appellant's ground of appeal that the lower court erred in misapprehending the applicable law in finding that the respondent's conduct did not constitute acts of collective infringement of economic rights, it dispenses with the remaining grounds of appeal concerning the application of Korean law to this part of the lower court's judgment.

### 4.2.3 Plaintiff A's Second Subisidiary Claim

Having dismissed the appeal in respect of the plaintiff A's primary claims and the plaintiff A's first subsidiary claim, the Court found it unnecessary to consider the appeal in respect of the plaintiff A's second subsidiary claim and the Court omits to do so.

### 4.3 *Conclusion*

The Court ordered that the judgment of the lower court is reversed and the case is remanded to the lower court for a new hearing and determination.

## 5 Analysis of *Actoz Soft* Case

The Supreme Court first clarified the priority of application between Article 5(2) of the Berne Convention and Article 24 of the former Private International Law in *Actoz Soft* case. In this sense, Actoz Soft case is the first landmark case to deal with the governing law applicable to the succession of copyright by a split-off.

The Court in the *Actoz Soft* case held that Article 5 (2) of the Berne Convention preempted Article 24 of the former Private International Law in connection with the priority of application. In this regard, the *Actoz Soft* case implicitly acknowledges that Article 5(2) of the Berne Convention is self-executing.

Its holding is very plausible because the former, which focuses on copyright only, is a special provision to the latter, which covers the overall protection of intellectual property rights. Furthermore, the *Actoz Soft* Court held that the latter was applied to the succession of economic rights by the split-off because the former covers only the extent of protection and the means of redress afforded to the author to protect his rights.[27] However, the successibility of economic rights from the company C to the defendant B should be characterized as the transferability of copyright, rather than the succession of economic rights by the split-off. The governing law applicable to the transferability of economic

27 Professor Kwang-Hyun Suk argues that the law applicable to the attribution, establishment, and assignment of copyright will be *lex loci protectionis*, as governed by the Berne Convention Article 5 (2). *See* Kwang-Hyun Suk, *The Shade of the Forest Mania Rulings: Disappearance of the Berne Convention and Private International Law, and the Lost Opportunity to Address the Law Applicable to Copyright on Game Works*, 29(2) KOPILA Journal 273 (2023).

On the other hand, Professor Sun-Young Moon argues that "[i]n the case of copyright infringement (Article 5(2) [of the Berne Convention]) and attribution of copyright in audiovisual works (Article 14(2)(a) [of the Berne Convention]), which are directly governed by the Berne Convention, the treaty will apply, and Article 24 [(currently Article 40)] of the former Act on Private International Law will serve as a supplementary rule, while the creation, content, transfer, duration and effect of copyrights not governed by the Berne Convention will be governed by Article 24 of the former Act on Private International Law." *See* Sun-Young Moon, *Analysis of Choice of Applicable Law Issues in International Intellectual Property Infringement Rights Cases From the Perspective of Recent Lower Court Decisions*, 20(3) SungKyunKwan Law Review 1116 (2008).

rights is *lex loci protectionis*, but the one applicable to the succession of economic rights by the split-off is the law of the State where the newly established company is incorporated. In the *Actoz Soft* case, the Chinese law is the governing law applicable to the successibility of economic rights by the split-off.

In terms of legislative history, Article 24 of the former Private International Law (currently Article 40 of the Korean Act on Private International Law), which was newly enacted in 2001, declares that all matters relating to intellectual property rights, such as the ownership, establishment, extinguishment, and transferability of intellectual property rights, shall be governed by the law of the State where protection is claimed. A lower court in Korea stated this holding.[28]

Many scholars and case law internationally adhere to the position that the wording 'the laws of the country where protection is claimed' in Article 5(2) of the Berne Convention refers to *lex loci protectionis*.[29] However, others do not agree with them.[30]

In other words, the international trend among scholars is to determine *lex loci protectionis* as the governing law applicable to the transferability of copyright. In particular, the "European Max Planck Group (EMPG)" established the "Principles for Conflict of Laws in Intellectual Property" (hereinafter "CLIP Principles") on December 1, 2011. Article 3:301 of the CLIP Principles, whose title is "Transferability", provides that "The transferability of intellectual property rights and the question whether the transfer orlicense can be invoked against third parties shall be determined by the law of each State forwhich protection is sought." The transferability is an issue that needs to be

28 Daegu District Court, Decision of July 10, 2015 (2014 No 816).

29 *See, e.g.*, Raquel Xalabarder, *Copyright: Choice of Law and Jurisdiction in the Digital Age*, 8(1) Annual Survey of International & Comparative Law (2002); Elisabeth Fiordalisi, *The Tangled Web: Cross-Border Conflicts of Copyright Law in the Age of Internet Sharing*, 12(2) Loyola University Chicago International Law Review 199–200 (2015). Also, the German Supreme Court interpreted the wording under Article 5(2) of the Berne Convention as lex loci protectionis. *See* Bundesgerichtschof [BGH][Federal Court of Justice] June 17, 1992, 118 Entscheidungen des Bundesgerichtshoes in Zivilsachen [BGHZ] 394 (F.R.G.).

30 *See, e.g.*, Jane C. Ginsburg, *Global Use/Territorial Rights: Private International Law Questions of the Global Information Infrastructure*, 42 Journal of the Copyright Society of the U.S.A. 336–37 (1995) (stating that the wording "the laws of the country where protection is claimed" may refer to lex fori); Sam Richetson & Jane C. Ginsburg, *International Copyright and Neighboring Rights: The Berne Convention and Beyond* § 20.01 (2d ed. 2005) ("deriving from the Berne text supernational choice of law rules is a delicate, if not improbable, operation."); Paul Goldstein & Bernt Hugenholtz, *International Copyright: Principles, Law, and Practice* 129 (2010) (arguing that the Berne Convention Article 5 (2) is the substantive provision stipulating national treatment).

distinguished from contractual transfer, and the wisdom of applying the law of the State where protection is claimed, becomes even more apparent in the context of non-contractual transfers. There is no law applicable to contracts in cases of succession, inheritance, neglect or abandonment of rights because they arise out of non-contractual relationships. Non-contractual transfers are particularly important in the case of inheritance or succession. Here, the law of the State where protection is claimed must be distinguished from the law applicable to succession or inheritance itself. In this regard, the law of the State where protection is claimed will address the issue of whether a copyright is successible or inheritable.[31]

Article 3:401(2) of the CLIP Principles provides that "Transferability of the shares of each co-owner shall be governed by the law of the State for which protection is sought." It is important to distinguish between 'transferability' and 'actual transfer'. If the law of the State where protection is claimed allows for the transferability of intellectual property rights, enabling the transfer to take place, then the actual transfer can take place and under the standard scenario of the transfer under a contract, the contract will be governed by law applicable to the contract.[32]

Assuming that Korean law is applied to both the succession of copyright by a split-off and the transferability of the shares of ownership of copyright unlike the *Actoz Soft* case, the latter should take precedence over the former in terms of the priority of application even though both are mandatory provisions.

If it is possible to comprehensively succeed to the shares of ownership of a co-author upon the split-off of a company, the application of Article 48(1) of the Copyright Act can be illegally circumvented, and co-authors who have not agreed to the disposition of their shares may face difficulties in exercising their moral rights in the future. Therefore, given the special nature of the personal relationship between co-authors, Article 48(1) of the Copyright Act, whose title is "Exercise of Economic Rights in Jointly Authored Works", takes precedence over Article 530-10 of the Korean Commercial Code in terms of the priority of application. Article 48(1) of the Copyright Act is a special provision to them.[33]

31 Josef Drexl, 'Transferability', in *Conflict of Laws in Intellectual Property: The CLIP Principles and Commentary*, 255 (Oxford University Press, 2013).

32 Paul Torremans, 'Co-ownership', in *id.*, 263.

33 Gyooho Lee, *Understanding Intellectual Property*, 27 (Parkyoungsa, 2020).

## 6 Conclusion

Article 5(2) of the Berne Convention is self-executing and takes precedence over Article 40 (formerly Article 24) of the Korean Act on Private International Law in terms of the extent of protection and the means of redress afforded to the author to protect his copyrights.[34] However, the succession of economic rights by a split-off was held to be governed by *lex loci protectionis* under Article 40 (formerly Article 24) of the Korean Act on Private International Law because it was not covered by Article 5(2) of the Berne Convention. In other words, the former is a general provision to the latter in connection with the succession of economic rights by the split-off.

The *Actoz Soft* Court held that the succession of economic rights by the split-off was governed by the law applicable to the law of the State where the defendant B was incorporated, i.e., the Korean Commercial Code. Based on Article 530-10 of the Korean Commercial Code, the Court observed the possibility that the defendant B could succeed to the economic rights of the Company C within China. However, if the successibility of economic rights by the split-off is characterized as the transferability of copyright, *lex loci protectionis* will be Chinese Company Law, which lacks the provision on the split-off, so that the succession of economic rights by the split-off is prohibited under the Chinese law.

In short, to prevent potential disputes over joint authorship, it is necessary to avoid the type of contract that would make the foreign investor a joint author, because the foreign investor is are unlikely to contribute to the creation of the game.

34 Gyooho Lee, *International Jurisdiction and Choice of Applicable Laws – Focused on Judgment Rendered by Seoul Central District Court on March 13th, 2008* (*Music Video "Sonata of Temptation" Case*), 12(1) Infomedia Law 22–23 (2008).