The Labor Dispute Resolution System in Japan: Recent Developments, Their Background and Future Prospects

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I. Introduction

This paper intends to provide a basis for comparative analysis and discussion of the dispute resolution system under Japanese labor and employment law. As background information, Part II of this paper describes the situation regarding individual and collective labor disputes in Japan, focusing on recent trends. Then, in Part III, this paper explains the contents of the major systems for resolving labor disputes. Since Japan has recently created the System for Promoting Resolution of Individual Labor Disputes and the Labor Tribunal System, these new systems are explained in detail. Finally, Part IV briefly presents evaluation of Japanese labor dispute systems and points out several future issues and prospects.

II. Facts about Labor and Employment Disputes

1. Number and Contents of Labor Disputes

A Number of Disputes

In Japan, there has been a dramatic increase in the number of individual labor disputes in recent years. First, the number of civil cases filed before the district courts has tripled over the last decade (CHART 1). In 1991, only 1,054 civil cases (662 ordinary procedure cases and 392 temporary relief cases) involving labor disputes were filed before the district courts. However, the number steadily increased during 1990s. In 2004, the number of such civil cases reached about 3,168 (2,519 ordinary procedure cases and 649 temporary relief cases). Although these statistics do not exclude cases of collective disputes, most of these cases appear to be individual labor cases, in light of the decline of union density and the decrease of collective disputes, as will be explained below.

A far greater number of individual labor disputes go to administrative agencies. As stated above, Japan has introduced the System for Promoting Resolution of Individual Labor Disputes to provide counseling services, administrative recommendations, and conciliation. 823,864 people requested counseling services at the “one-stop” service of Prefectural Labor Offices in 2004. Among such requests, cases involving civil employment disputes amounted to 160,166 (CHART 2).
On the other hand, the number of collective disputes has been decreasing. For example, only 311 unfair labor practice cases were filed with Labor Commissions in 2004, which is just about a third of the 929 cases filed in 1975. Also decreasing is the number of cases in which parties to labor disputes petitioned for adjustment by a Labor Commission, such as conciliation, mediation and arbitration. Only 531 petitions were filed in 2004, in comparison with 2,249 in 1974 (CHART 3).
B Contents of Disputes

Among individual labor disputes, the most common are disputes that involve termination of an employment contract (through such measures as dismissal) and claims for unpaid wages. Out of 2,519 ordinary civil cases filed with district courts in 2004, plaintiffs (employees) claimed for unpaid wages in 1,427 cases. Also, plaintiffs sought a declaratory judgment of the existence of employment contracts in 573 cases.

According to the statistics on the System for Promoting Resolution of Individual Labor Disputes, counseling regarding dismissals comprises 27.1 percent of the cases involving civil employment disputes in 2004. Second to this is counseling regarding unfavorable changes in working conditions, such as wage decreases, which comprises 16.0 percent (CHART 4).
With respect to collective disputes, no comprehensive statistics are available. Among 311 unfair labor practice cases filed with Labor Commissions in 2004, the largest category is refusal-to-bargain cases (212 cases). The number of cases involving domination of and interference in union activities is 162, and those involving disparate treatment of individual workers are 146 (since petitioners often claim several unfair labor practices in one case, the total number exceeds 311). Thus, there is not much difference among the type of alleged unfair labor practices.

2. Background Factors of Recent Changes

Such an increase in the number of individual labor disputes has resulted from recent socio-economic changes in Japan. First of all, since Japan has been suffering from a decade of recession, many employers have carried out various steps to cut labor costs, ranging from unilateral changes of working conditions, transfers and farming-out of employees, economic dismissals and so on. At the same time, in order to maintain their competitiveness in the global market, Japanese companies are changing their human resource management systems. They are now introducing new systems that quite often focus on the performance of individual employees. Disputes arising from such individualized systems necessarily have an individual nature.
Secondly, diversification of the workforce appears to be another cause of the increase in individual disputes. Traditionally, the majority of the workforce in the Japanese labor market has been comprised of male workers as regular employees. However, the labor participation rate of women has been increasing. Also increasing is the number of atypical employees, such as part-time workers and workers under fixed-term employment contracts. Such diversification of the workforce has created new types of conflicts in the workplace, which may result in disputes such as employment discrimination or refusal to renew a fixed-term contract. Most of such disputes also have an individual nature.

Even if conflicts and dissatisfaction increase in the workplace, however, disputes may be prevented through appropriate measures. In Japan, the joint-consultation system has played such a preventive role in unionized workplaces, since unions and employers can discuss potential conflicts and prevent them from developing into disputes through mutual consultation. Moreover, middle managers in Japan have acted as a “buffer” between top-level management and rank-and-file workers, since Japanese workers generally rely on their supervisors and go to their offices when they are dissatisfied with their working conditions or have other problems in the workplace.

Lastly, Japanese employment practices, i.e. long-term employment and seniority-based wages, have also functioned to deter labor disputes. When workers have prospects of obtaining better working conditions and positions through continuing to work under such systems for a long time, it is a reasonable choice for them to be patient and avoid bringing to attention their dissatisfaction.

Currently, however, these deterrent factors are beginning to lose their force. Fewer workers can enjoy the benefit of joint-consultation due to the decline in union density. Middle managers are becoming busier because their own workload has increased, and they do not have sufficient time for consultation. Furthermore, middle managers sometimes become opponents rather than “buffers” when their performance appraisal causes the decrease of their workers’ wages. Finally, as long-term employment and seniority-based wages are losing credibility, workers are beginning to doubt if they will be better-off in the future by being obedient and silent at the present time.

Against this background, it became necessary to create a new system. Thus, in 2001, the Law to Promote the Resolution of Individual Labor Disputes was enacted. Moreover, this topic was discussed in the movement for the reform of the judicial system. Together with other issues such as the introduction of a jury system in criminal cases, a new judicial system for dealing with individual disputes became an important issue. As a result, the Labor Tribunal Law was enacted in 2004.
III. Contents of Labor and Employment Dispute Resolution Systems

1. Overview of Dispute Resolution Systems

   A. Public System

      a. Courts

      Unlike European countries, Japan does not have labor courts. It is ordinary courts that are entrusted to resolve labor disputes in the same manner as other civil disputes, except that Labor Commissions, quasi-judicial administrative agencies, have jurisdiction over collective disputes. However, against the background explained above, the Labor Tribunal Law was enacted. This law did not establish labor courts, but created a new judicial system (“Labor Tribunal System”) for resolving individual labor disputes.

      Under this system, there is a Labor Tribunal at each district court, consisting of one judge and two part-time members who have experience and expertise in labor and employment relations, as labor and management respectively (APPENDIX 1). The Tribunal (panel) is required under the law to dispose of the cases within three hearing sessions. Throughout these proceedings, the panel can always try to mediate the disputes.

      Based on such speedy hearings, the panel renders an award to resolve the disputes with the votes of the majority of the three members. The panel may flexibly determine the contents of the award, so long as it is consistent with the parties’ legal status and their intentions. The award becomes final and binding only if the parties do not object. However, even if the objection is filed, the case does not end. The law provides that in the event that the case is automatically referred to a civil court, it should be regarded as a pending ordinary civil litigation.

      Thus, the Labor Tribunal System provides for a speedy judicial procedure to resolve individual labor disputes through mediation and flexible adjudication, presided by professional judges and labor and employment experts. In addition, this system is linked to ordinary civil litigation through the option for parties to object to the award.

      b. Administrative Procedures under the System for Promoting Resolution of Individual Labor Disputes

      Formerly, administrative procedure for resolving labor disputes was available only with respect to collective disputes. Under the Trade Union Law, the Labor Commissions have jurisdiction over unfair labor practice cases and adjustment of industrial disputes. Other than this, although the Labor Standards Law provides for the Labor Inspection System, the role of the Labor Inspector is to inspect workplaces, provide administrative guidance, and if necessary, exercise the functions of the police such as arrest and seizure. Labor Inspectors do not have the authority to conduct conciliation of disputes.

      However, in 2001, the Law to Promote Resolution of Individual Labor Disputes created an administrative system with three components, i.e. (1) comprehensive counseling at the Prefectural Labor Office, (2) administrative recommendation by the Prefectural Labor Director, and (3) conciliation by the
Dispute Adjustment Commission (APPENDIX 2).

First, the Prefectural Labor Director provides workers with information, conduct counseling and other assistance on all subjects regarding labor disputes (“One-Stop” service). This service is aimed at preventing and resolving disputes at an early stage, since the lack of sufficient information on labor laws sometimes leads to disputes. If the Director finds that another agency, such as the Labor Inspection Offices or Labor Commissions, has jurisdiction over the dispute, then the Director provides information on filing charges or complaints with such agencies.

In addition, in cases where the Prefectural Labor Director is petitioned by one or both parties for assistance in resolving individual labor disputes, the Director may provide recommendations to the parties. For example, if the dismissal of a petitioner is unlawful as an abuse of employee’s rights under Article 18-2 of the Labor Standards Law, the Director advises the employer that the dismissal should be withdrawn or at least reconsidered.

Furthermore, the Law established a Dispute Adjustment Commission in each local prefecture; each commission is comprised of neutral experts (labor law professors, attorneys, etc.) in labor issues and, by a three-member panel, conducts conciliation in most individual labor disputes. Conciliation is a process in which panel member(s) hear parties' contentions and facilitate negotiations in order to reach an agreement to settle the case. The procedure for conciliation is explained below. Regarding disputes under the Equal Employment Opportunity Law, the Commission engages in mediation, which is a slightly more formal procedure than conciliation.

c. Labor Commissions

The Trade Union Law established the Labor Commissions, quasi-judicial tripartite administrative agencies in charge of procedures for unfair labor practice cases. Based on a complaint filed by workers or trade unions, the Local Labor Commission in the first instance conducts administrative hearings and issues a remedial order if the Commission finds that an unfair practice has occurred. Parties who are dissatisfied may appeal to the Central Labor Commission, and they can also seek further judicial review. Formerly, unlike Korean Labor Commissions, the Labor Commissions in Japan did not have jurisdiction over individual labor cases. However, most Prefectural Labor Commissions are now engaging in conciliation of individual disputes.

In addition, the Labor Relations Adjustment Law provides for procedures to be carried out by Labor Commissions for the adjustment of collective labor disputes, to promote peaceful and voluntary resolution of collective disputes. Three main measures for such adjustment are conciliation, mediation and arbitration.

In the process of conciliation, a conciliator is appointed to hear parties' contentions and facilitate voluntary resolution of the case. Mediation is a slightly more formal process than conciliation. A tripartite mediation committee hears parties' contentions, submits a draft settlement, and recommends that the
parties to accept it. Finally, in the arbitration procedure, an arbitration committee consisting of only members representing public interest renders an arbitration award that is binding on both parties. In most cases, parties petition for conciliation.

B. Private Systems

Japanese workers have not utilized grievance procedures even when they are provided for under collective bargaining agreements. As stated before, Japan has developed mechanisms to prevent workplace disputes, as opposed to trying to resolve them after they occur, using such measures as joint-consultation between the employer and the trade union, consultation with middle managers, long-term employment and seniority-based wages. Although such dispute-prevention mechanisms have become weak, employers as well as unions have not succeeded in creating new private dispute resolution systems.

Unlike the United States, Japan has no tradition of arbitration, either under collective bargaining agreements or individual employment contracts. When the Arbitration Law was overhauled in 2004, a tentative provision was inserted stating that agreements between employers and individual employees to arbitrate employment disputes are null and void.

2. Procedures for Resolving Labor and Employment Disputes

A. Outline of Major Procedures

a. Courts: Ordinary Courts and Labor Tribunals

Ordinary civil litigation begins with the plaintiff’s filing of a complaint. If the defendant denies the plaintiff’s claim, the case first goes through a pre-trial process, where the judge(s) and the parties prepare for trial by clarifying legal as well as factual issues and submitting evidence including potential witnesses. Then the trial is held. In Japan, there is no jury system in civil cases. Thus, it is professional judges that render a judgment. Settlement is possible and often recommended by the judge(s) throughout this procedure. The temporary relief procedure provides a simpler and more expedited process.

On the other hand, the procedure under the Labor Tribunal System consists of three days of hearings. When the plaintiff files a complaint with the district court that has jurisdiction, the court appoints a three-member panel to hear the case. Although the Labor Tribunal Law will not take effect until April 1, 2006, a typical procedure will be as follows. The first hearing session consists of clarification of issues and scheduling of hearing testimonies for the next hearing, in addition to submission of documentary evidence. At the second hearing session, the panel usually hears testimonies. In contrast to a lengthy formal trial, the hearing of testimony is brief and informal. Based on the results of hearing testimonies, the panel may try to mediate the dispute throughout the procedure.

Then, on the third and final day of hearings, the panel may focus on mediation, in addition to the hearing of supplementary testimonies. If mediation is unsuccessful, the panel closes the procedure and renders the award, either orally at the end of the session or by sending a written award afterwards. If either party files an objection, the case continues as an ordinary civil litigation, since the petition for award is
deemed to be a complaint filed with the district court. However, the record including the documentary evidence and testimonies from the Labor Tribunal procedure does not automatically go to the judge(s) who handles the case. The parties may submit them if necessary. If the case is very complex and not appropriate for the procedure in which the award is rendered after three hearing sessions, the panel shall not render an award, and the case will be referred to civil litigation.

**b. Conciliation under the System for Promoting Resolution of Individual Labor Disputes**

In a case where one or both parties to an individual labor dispute (except for a dispute with respect to the recruitment and hiring of workers) petitions for conciliation with respect to such dispute, the Prefectural Labor Director shall refer the dispute to the Dispute Adjustment Commission for conciliation, if the Director finds it necessary. The Chairperson of the Commission appoints three-member panel, and the panel (or one of the members) shall conduct conciliation between the disputing parties, clarifying issues regarding the claims of both parties and endeavoring to obtain the parties' agreement. In addition to hearing the opinions of the disputing parties, the conciliation members may, if necessary, hear the opinions of witnesses, request the submission of written opinions, prepare a conciliation plan with the unanimous approval of all conciliation members, and present it to the disputing parties.

However, this procedure is voluntary, since the other party to the dispute is not obligated to participate in the procedure. Therefore, the Commission does not start conciliation if the other party is not willing to appear. Also, if the Commission finds that there is no prospect of resolving the dispute through mutual agreement, they may discontinue conciliation.

**c. Labor Commissions: Unfair Labor Practice Cases**

Administrative procedure before Labor Commissions in unfair labor practice cases has a quasi-judicial nature. Firstly, the trade union or union members may file a complaint against the employer. After the clarification of issues and submission of evidence, the hearing of testimony takes place. Based on the finding of facts and determination of law, the Commission issues an order that provides relief for unfair labor practices or dismisses the complaint, depending on the merit of the case. As a tripartite agency, the Commission usually tries to settle the case, with significant contributions by the members from management and labor.

**B. Time Spent for Disposition of Cases**

**a. Courts**

In the past, it took a long time for courts in Japan to resolve labor cases. In 1984, the average amount of time it took to dispose of an ordinary civil case involving labor disputes at a district court was 22.9 months. However, the process has become considerably faster in the past twenty years. In 2004, the average amount of time was 11 months. This is because of the reform of civil procedure as well as its practice, and probably also due to the increase in individual labor disputes, the resolution of which is
usually simpler than collective disputes. With respect to temporary relief cases, the process is even faster; most cases appear to be resolved within six months or so.

Still, it has been pointed out that the process should be more expedited. The Committee on the Reform of the Judicial System stated in 2001 that the amount of time used for the disposition of labor cases should be shorter by 50%. Also, under the Labor Tribunal Law, the tribunal is required to dispose of cases within three hearing sessions. It is expected that the cases under this procedure will be resolved much faster.

b. Procedures for Promoting Resolution of Individual Labor Disputes

The administrative procedure under the Law to Promote the Resolution of Individual Labor Disputes is quite short. In 2004, 66.4% of the cases filed with Dispute Adjustment Commissions for conciliation were closed within one month after filing. Within two months, 92.9% of such cases were closed. However, in about half of such cases, the conciliation did not start or was discontinued. This is mainly because the respondents refused to participate in the procedure. With respect to the procedure for administrative recommendation, 93.9% of the cases filed with Prefectural Labor Offices were closed within one month in 2004. Prefectural Directors provided recommendations in 94.7% of the cases.

c. Labor Commissions

However, the Labor Commissions have long been criticized for the delay in their proceedings. It takes about three years (906 days according to 2004 data) to dispose of unfair labor practice cases in Local Labor Commissions (now called "Prefectural Labor Commissions"). In the case of the Central Labor Commission, the average amount of time is about four years (1,539 days according to 2004 data).

Such delays are partly because complex cases have increased in recent years, such as collective discrimination of minority unions through performance appraisals or disputes arising from the privatization of Japan National Railroad in the early 1980s. Still, it was often pointed out that insufficient clarification of issues and evidence was one of the main reasons for the lengthy hearing. Thus, the Diet amended the Trade Union Law last year. In order to expedite procedures, the Commissions are now required to draw up a schedule for hearings, which contains the issues in the case and a schedule for hearing witnesses.

As stated before, such criticism resulted in the reform of the Labor Commissions’ procedure through the amendment of the Trade Union Law in 2004. Since the amendment took effect on January 1, 2005, it remains to be seen at this time whether the reform has actually expedited the process; although, there appears to be significant improvement at the Central Labor Commission, in which the author is involved.

C. Special Features in the Systems for Resolving Labor Disputes

a. Accessibility: Cost, Location and Time

Individual workers may hesitate to make use of the procedure for resolving labor disputes if the cost of the procedure is too high. Here, the cost includes not only payment to courts and other forums but also other costs such as attorney fees. Thus, the systems for resolving employment disputes are often simple
and less costly than formal judicial procedures. Japan is not an exception. For example, the Law to Promote the Resolution of Individual Labor Disputes provides for a free and simple system of counseling, administrative recommendation and conciliation. In particular, the counseling service is provided at about 300 offices (Prefectural Labor Offices, Labor Inspection Offices etc.) throughout Japan, in comparison with 50 district courts (main office). Also, the Labor Tribunal System is more accessible than ordinary courts since the process is fast and the cost (paid to the court) is about half of that of ordinary litigation.

b. Adjustmental Measures for Voluntary Resolution

Since workers and employers have a continuing and personal relationship, it is better, if possible, to resolve disputes between them through mutual agreement rather than unilateral determination by third parties. This is also the case with the relationship between trade unions and employers. As a result, the systems for resolving labor disputes often attach importance to measures which promote voluntary resolution.

Indeed, the Labor Tribunal may engage in mediation at every stage of the proceeding. The Law to Promote the Resolution of Individual Labor Disputes relies entirely on voluntary measures such as administrative recommendation and conciliation. The courts in ordinary civil litigation also attach importance to settlement in their practice. The Labor Commissions have the authority to conduct conciliation, mediation and arbitration of collective disputes under the Labor Relations Adjustment Law. In addition, with respect to unfair labor practice cases, it is a common view of Commission members that settlement is better than final order. The 2004 amendment of the Trade Union Law created a special provision regarding the Commission's authority and procedure regarding settlement.

c. Participation of Labor and Management Experts

Those who have experience and expertise in labor and employment relations may participate in some of the systems for resolving labor disputes. This is because such experts are more familiar with the reality of the workplace, and their knowledge and experience are helpful for judging the case as well as promoting settlement. Thus, the Labor Commissions have a long-standing tradition of using the tripartite system. In unfair labor practice cases, members representing labor and management can participate in the hearing and submit their opinions before members representing the public interest decide the case. The value of the tripartite system is realized especially when labor and management members contact the parties and persuade them to agree to the settlement proposal. Such skill is also reflected in the conciliation and mediation of labor disputes under the Labor Relations Adjustment Law.

In addition, under the newly created Labor Tribunal System, two members with expertise and experience constitute the tribunal, hear testimony, and have a vote in rendering an award together with a professional judge. However, there is a difference in the role of the expert participation. Although expert members are required to have experience and expertise in labor and employment relations, they must be
neutral as a member of the tribunal that renders an award. Still, their experience and expertise will be quite valuable in fact-finding, the determination of merit, and mediation efforts. Furthermore, their participation gives the Tribunal system a more friendly and accessible atmosphere because they are closer to the parties' everyday working life.

It is also expected that the participation of experts in the judicial resolution of labor disputes will produce valuable feedback for the workplace. If such experts become accustomed to the manner in which labor disputes are resolved by applying legal rules, they will resolve workplace disputes in such a manner, or, more likely, try to prevent disputes by being more conscious about legal rules.

IV. Evaluation and Future Prospects

1. Evaluation of Present Dispute Resolution Systems

Until only recently, the Japanese systems for resolving labor and employment disputes have focused on collective disputes. The Labor Commissions have played an important role in unfair labor practice cases and adjustment of labor disputes. However, delays in unfair labor practice procedures have been severely criticized. More importantly, there was no specialized system for individual labor disputes. Although ordinary courts have jurisdiction over individual labor disputes, they are not very accessible in terms of time and cost.

However, in light of the increase of individual disputes, new systems have been introduced both in the judicial and administrative arenas: the Labor Tribunal System and the System for the Promotion of Resolution of Individual Labor Disputes. Both of these systems are fast and accessible, specifically designed for resolving individual disputes. Coupled with the amendment of the Trade Union Law regarding unfair labor practice procedures, the dispute resolution systems under Japanese labor law have been considerably improved.

Still, these new systems have only recently been introduced. The System for the Promotion of Resolution of Individual Labor Disputes began functioning in October 2001. The amendment of the Trade Union Law took effect in 2005. The Labor Tribunal System will start on April 1, 2006. Therefore, the success of the new systems greatly depends on how they actually operate in the future.

2. Future Prospects

Firstly, one of the key factors to the success of the new systems for resolving labor disputes is the quality and quantity of manpower engaged in the systems. This is especially the case with labor and management experts in the Labor Tribunal System. Although, as stated before, expertise and experience in labor and employment relations are quite valuable in resolving labor disputes, it is important to select and appoint those who actually have such expertise and experience.

Training is also necessary for them to understand the meaning of their participation, including basic knowledge of labor laws and the importance of being neutral. About 1000 candidates of Labor Tribunal
members are currently receiving training. In addition, judges and practicing lawyers must prepare for the new procedures. For example, oral arguments will become much more important in the Labor Tribunal System, since submission of many documents is not consistent with fast hearings.

Secondly, now that Japan has two major systems for resolving individual labor disputes, i.e. the Labor Tribunal System (judicial) and the System for the Promotion of Resolution of Individual Labor Disputes (administrative), a question arises about the division of roles between these systems. Do they compete with each other? Or do certain disputes go to only one of these systems? Although partnership between two systems is another subject to be considered, it is expected that parties to small and simple disputes will go to the administrative system. This is because parties need not pay to use the administrative system, and those who come for counseling at “one-stop” services will quite likely seek conciliation or recommendation within the administrative system, especially when the amount of the dispute is small and complainants need not mandatory resolution.

On the other hand, cases before the Labor Tribunal may eventually go to ordinary civil litigation if the parties object to the award, and the parties may need lawyers in handling the dispute before the Tribunal. Thus, disputants who have a larger stake and need stronger but quick resolution may prefer the Tribunal procedure. Cases involving unjust dismissals would be a typical example. Since such dismissal cases are some of the most typical examples of individual disputes, the Labor Tribunal System will be the main system for resolving individual labor disputes. More complex cases such as collective dismissals or systematic discrimination will go to ordinary civil litigation from the beginning. Even if the number of cases is small, courts in ordinary litigation will continue to play the important role of establishing legal rules in the workplace based on formal procedures. Much the same can be said about the Labor Commissions in the resolution of collective disputes.

Lastly, one of the remaining aspects is in-house or private dispute resolution of labor disputes. Japanese employers have traditionally preferred the prevention of labor disputes by joint-consultation or other measures rather than the resolution of disputes after they arise. However, as stated before, such prevention mechanisms appear to be deteriorating now. When employees realize that they can easily use public dispute resolution systems, employers may want to resolve their disputes within the organization before such disputes go out. Such a phenomenon actually happened in the United States, by way of the development of various alternative dispute resolution measures, such as in-house grievance procedures and arbitration. Although there has not been much discussion about the effective design of in-house dispute resolution systems or private arbitration in Japan, it will become an important issue in the future.
Appendix 2: System for Promoting Resolution of Individual Labor Disputes

- Labor Inspection Office,
- Public Employment Service,
- Equal Employment Office

other agencies