

## 9 Desirable Form of Unfair Competition Prevention for the Reinforcement of IP Protection

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*The Intellectual Property Policy Outline urges stronger protection of trade secrets under the Unfair Competition Prevention Law, both in civil and criminal respects.*

*In order to address these challenges, this report analyzed ideal provisions for facilitating proof of the presence of an act of infringement and the amount of damages in litigation under the Unfair Competition Prevention Law, and the conceptual provisions appropriate for the present networked society.*

*In addition, the problems that would arise if criminal penalty provisions for strengthening protection of trade secrets were established in the Unfair Competition Prevention Law and problems related to the protection of trade secrets in litigation were studied.*

*An analysis was also made as to the trade secret management guidelines that would be helpful for companies to formulate strategic programs for improving their management of trade secrets.*

### Introduction

For the research and study on the Unfair Competition Prevention Law in FY 2002, the Committee on Research and Study on Reinforcement of Civil Protection and Review of the Conceptual Provisions, the Committee on Research and Study on Adequate Protection of Trade Secrets and the Committee on Research and Study on Guidelines on the Management of Trade Secrets in Business Entities were formed to investigate the issues concerning reinforcing the civil protection for the claimant, adaptation to networking and criminal protection of trade secrets.

### **Committee on Research and Study on Reinforcement of Civil Protection and Review of the Conceptual Provisions**

The Committee on Research and Study on Reinforcement of Civil Protection and Review of the Conceptual Provisions investigated the following issues as the issues concerning reinforcing civil protection for the claimant: ① providing for the obligation of presenting the specific mode of infringement; ② enhancing document submission orders; and ③ introducing an in camera procedure. The committee also studied the following: ④ opinion from industry requesting the reinforcement of civil protection of the claimant, including the introduction of a provision for easier burden of proof of the amount of lost profit; furthermore, as an issue pertaining to the measures to cope with networking, it looked into ⑤ reviewing the conceptual provisions of the Unfair Competition Prevention Law to adapt to the IT era.

### **1 Stipulating for the obligation of presenting specific modes**

On the subject of stipulating for the obligation of presenting specific modes, while two different opinions were presented for the reasons given below, the introduction of such stipulation is recommended because it can be expected that it will help a judge to clarify issues and expedite court proceedings.

The opinions presented in support of introduction were as follows: ① Among law suits on the violation of business interest by an act of unfair competition, especially in cases concerning trade secrets, the manner of infringement by the respondent is mostly very difficult to specify. Therefore, there seems to be recognizable merit in stipulating for the obligation of presenting specific modes, which would help the claimant to assert and prove the infringement more easily; ② Since the Unfair Competition Prevention Law can be considered as in the position of a general law among intellectual property laws, from the viewpoint of maintaining balance with the other four industrial property laws like the Patent Law, it is desirable to stipulate in the same manner as has been done in such laws.

The reasons presented by those against introduction were as follows: ① In cases under the Unfair Competition Prevention Law, except cases involving trade secrets, generally, infringing products will most likely be on the market, and the claimant can easily ascertain the respondent's manner of infringement; therefore, there is no substantial need for the stipulation; ② Since the identification of the specific modes of infringement by the defendant will generally be in the earlier part of court proceedings, there could be a danger of

such stipulation being abusively utilized mainly to explore the trade secrets of the defendant; ③ Because the obligation of presenting specific modes could also be elicited from Section 79(3) of the Rule of Civil Procedure, additional stipulation would not be necessary, and even if it were stipulated, it would only be intended to be a confirming provision.

## **2 Enhancing document submission orders**

Since, in cases related to trade secrets, infringing acts are mostly conducted within the premises of the defendant and documents concerning the infringing acts usually exist on the side of the defendant, it is difficult for the plaintiff to obtain those documents. Therefore, the amendment of the law to accommodate the enhancement of document submission orders should be made in the same way as was done for the four industrial property laws and the Copyright Law, since such provision for the obligation of production of “documents necessary to prove an infringing act” is to alleviate the plaintiff’s burden of allegation and proof and to help to realize appropriate and speedy proceedings.

On the other hand, an opinion was presented that it would not be so meaningful to provide for such document submission order in the Unfair Competition Prevention Law because Section 220 of the Code of Civil Procedure provides for the obligation of document production as one of the general obligations.

Regarding “a legitimate reason” for refusing to produce documents, “matters with regard to technological or professional secrets” as provided in Article 197 of the Code of Civil Procedure will be regarded constituting “a legitimate reason” and be exempted from the obligation for production of documents. Therefore, an opinion was presented to the effect that it is meaningful to provide for the enhancement of document submission as long as, in order to decide on the existence of such legitimate reason, not only judgment of whether the subject matter is a trade secret or not, but also judgment comparing and weighing the need to protect the trade secrets of the document holder and the need of the movant to prosecute the proceedings is conducted. Specifically, conducting judgment on “legitimate reason” through in camera inspection is considered as a countermeasure.

## **3 Introduction of in camera procedure**

In order to decide on the necessity of an order to produce documents in a case concerning infringement of business interest by an act of unfair competition, the court often cannot decide whether a “legitimate reason” exists without actually inspecting the relevant documents. However, if the

court conducts the inspection in open court, the confidential information contained in the documents would leak to outside, causing serious damage to the holder of the documents. Therefore, it is considered necessary to introduce in camera procedure also in the Unfair Competition Prevention Law.

The following points have been made with regard to in camera procedure: ① there is a “concern about the guaranty of due process” in that the involvement of the related parties is not allowed; and ② there is a concern about the “effect on the formation of impression” in that, while this is a procedure for introduction of evidence, the judge could form an impression about the merits. However, in light of the current situation of case proceedings and the purposes of the introduction of this procedure into the Code of Civil Procedure and the Patent Law, etc., these points could be considered permissible.

## **4 Opinions from industry about reinforcing civil protection for the plaintiff**

### **(1) Stipulating for the obligation of presenting specific modes**

Industry is not in a position to oppose to the introduction of the stipulation because it understands that, while, generally speaking, identifying the infringing act in the case of an act of unfair competition under the Unfair Competition Prevention Law is easy and the need for the introduction of such stipulation is not very great, if the stipulation is introduced, it will have a certain practical merit in view of the expected speedup of court proceedings and fairness for the parties.

Among improper acquisition, use and disclosure of a trade secret (Section 2(1)(iv)-(ix) of the Law), especially as for an act of “use,” “infringing” manner can be conceptualized in the same way as in the case of infringement of a patent; therefore, for the same purpose as in the case of the introduction into the Patent Law, in view of the expected speedup of proceedings and the fairness for the parties, the introduction of the same system as introduced into Patent Law is considered to have practical merit. However, in a litigation on an infringement of trade secrets, there is a possibility that while the trade secret the plaintiff asserts to possess is yet to be adequately identified, the defendant is required to present his specific mode, and it is concerned that the relative scope of the trade secret required to be disclosed by the defendant might be greater than that of the plaintiff. This may be not only imposing too much burden on the defendant, but it could also have an adverse effect by inducing misuses of the system such as entering an action for the purpose of exploring the other party’s trade secrets. Therefore, an exempting provision applicable to cases where the

presentation of specific modes includes trade secrets is considered necessary.

**(2) Expanding the scope of order for submission of documents and accompanying protection of the trade secrets of the person submitting the documents**

That the purpose of orders for submission of documents may also include proof of infringement of trade secrets is supportable, because this would assist fact finding in the lawsuit. In that case, however, it should be accompanied by stipulating for a measure to effectively protect the trade secrets. This is because, if the scope of document submission order is expanded, it will cause the possibility of trade secrets being disclosed to a third party through the other party; and furthermore, if the judge denies "legitimate reason" for documents that contain trade secrets and presentation of the trade secrets is required at the examination of evidence in the trial of the case, there is unavoidable risk, under the present legal system, of the trade secrets becoming publicly known in open court. Therefore, we consider it necessary to take proper measures to protect secrecy so that the owner of a trade secret is not treated unfairly. Specifically, a system like "Protective Order" in the U.S. is considered indispensable, by which those that are allowed to access trade secrets may be limited to outside lawyers, etc. and penal regulations may be applicable in cases of unfair disclosure.

**(3) Creating a provision for easier burden of proof of lost profit**

As in the case under the Patent Law, there could be cases in which the plaintiff may not be granted adequate amount of damages under the provision of Section 5(1) and others of the current Unfair Competition Prevention Law. Therefore, the introduction of the same provision as Section 102(1) of the Patent Law should be considered positively. However, the Unfair Competition Prevention Law covers a variety of act-patterns and there are cases for which the introduction of the same provision as in the Patent Law is not necessarily considered appropriate; therefore, careful attention is necessary when considering the introduction of such a provision. Specifically, a possible way, applicable to Section 2(1) (i) to (ix), (xiii) and (xv) of the Unfair Competition Prevention Law, is to introduce the same provision as in the Patent Law for easier burden of proof of lost profit (the calculation method of the amount of money obtained by multiplying the amount of infringing articles transferred by the defendant by the amount of unit profit of the plaintiff's articles).

**5 Reviewing the conceptual provisions of the Unfair Competition Prevention Law to adapt to the IT era**

We investigated whether each concept of the terms "goods," "use," "sale" and "delivery" under the Unfair Competition Prevention Law was applicable to intangible property transactions conducted over the Internet such as computer programs or others and discussed the pros and cons of an amendment of the current law.

First, as for the concept of "goods," it should be interpreted to include intangible matter because, in this information-oriented society, intangible property is also regarded as itself being the subject matter of transactions as well as tangible property. In addition, there is no definitional provision on the concept of "goods" in the Unfair Competition Prevention Law and whether a subject matter falls within "goods" or not is to be examined from the standpoint of establishing and maintaining the order of fair transactions, the objective of the Law, and therefore, there should be no need to differentiate between tangible and intangible subject matters in the interpretation of the law.

Second, as for the concept of "use," since, unlike the Trademark Law, the Unfair Competition Prevention Law has no definitional provision on the term "use" and therefore has no specific qualification on the manner of use, it is not required to interpret "use" of an indication as limited to use on tangible goods. In addition, the meaning of "use" under the Unfair Competition Prevention Law has been interpreted loosely in judicial precedents and theories; recently, there was a decision that squarely recognized that the use of goods or other indications on the Internet falls within "use" under the Unfair Competition Prevention Law. Therefore, it is submitted that there is no need for an amendment of the law in this regard.

Furthermore, as for the concept of the terms "sale" and "delivery," the amendments of the Patent Law and the Trademark Law in 2002 added, as a manner of "implementation" of patent right or "use" of trademark right, "the act of providing (intangible items) through electric communication lines." This was to make it clear that, assuming that "product" in the Patent Law and "goods" in the Trademark Law include intangible items such as computer programs, transmitting intangible items such as computer programs via networks shall be covered by the right on such items. On the other hand, whether the concept of "sale" or "delivery" in the Unfair Competition Prevention Law includes the act of providing intangible products through an electric communication line is not clear from the language of the statute. Therefore, we consider it necessary to make it clear that the concept of "sale" or "delivery" in the Unfair Competition Prevention Law includes the act of providing

intangible products through an electric communication line in the same way as the cases of the Patent Law and the Trademark Law as amended in 2002.

## **6 Report of the Unfair Competition Prevention Subcommittee of Intellectual Property Policy Committee, Industrial Structure Council**

Based on the discussion of this Committee (Committee on Research and Study on Reinforcement of Civil Protection and Review of the Conceptual Provisions) and the Committee on Research and Study on Adequate Protection of Trade Secrets in II. below, the Unfair Competition Prevention Subcommittee of the Intellectual Property Policy Committee, Industrial Structure Council investigated, from June 2002 to February 2003, possibilities of ① reinforcement of civil protection, ② criminal protection of trade secrets, ③ adaptation to the progress of network, and ④ trade secret protection in the process of a lawsuit, and made a report titled Direction of the Review of the Unfair Competition Prevention Law.

### **Committee on Research and Study on Adequate Protection of Trade Secrets**

The Committee on Research and Study on the Adequate Protection of Trade Secrets looked into the issues relating to the introduction of criminal penalty for the reinforcement of protection of trade secrets. Specifically, for the criminal regulations in the case of unfair disclosure and use of trade secrets under the Unfair Competition Prevention Law, the committee studied the following items: ① feasibility of Subsection 2 crime; ② level of penalty; ③ concurrence of crimes (number of crimes); ④ crime committed outside Japan/extraterritorial application of Criminal Code; ⑤ attempt; ⑥ complicity; ⑦ case of larceny committed against relatives; ⑧ limitation to public action. In addition, ⑨ issues on criminal procedure for adequate protection of trade secrets in the course of proceeding were also investigated, and overseas research was conducted on ⑩ the provisions for criminal penalties related to the protection of trade secrets in major countries.

#### **1 Feasibility of Subsection 2 crime**

In the past, no criminal penalty provision has existed to protect information as such as property, while court decisions have recognized the proprietary value of information as incorporated in an item of "matter." However, all of these court decisions referred to the value of information as

incorporated in the "tangible property" that is the subject matter and did not discuss the proprietary interest in information separately from the tangible matter. The interest that conventional property crime has aimed to protect has the nature of "being transferable" from the victim to the perpetrator. On the other hand, trade secrets, being information, are characterized as "non-transferable" because "they remain even if taken." For trade secrets, with the characteristics of "non-transferability" of information, it is hard to recognize a transfer of any specific interest, and, even if it is such a piece of information that compensation can be considered for it, the acquisition or disclosure of a trade secret as such would not lead directly to actual damage; therefore, the scope of possible coverage of an infringement of trade secrets by conventional subsection 2 crime, subsection 2 fraud (of Section 246(2) Criminal Code), and subsection 2 extortion (Section 259(2), Criminal Code) is limited.

#### **2 Level of criminal penalties**

Although statutory penalties for conventional type crime are stipulated at a high level for property crime, as for the crime of infringing intellectual property rights, they are stipulated at a lower level. For example, while larceny or fraud using computers, an unfair acquisition type of offence, shall be penalized by imprisonment with labor not exceeding 10 years, infringement of a patent right or a trademark right shall be penalized by imprisonment with labor not exceeding five years or a fine not exceeding five million yen.

#### **3 Concurrence of crimes (multiple crimes)**

When we consider applying a new provision for infringement of trade secrets to an act comprising a conventional property crime, since the new legislation is not intended to weaken the protection so far provided, the property crime and the infringement of trade secrets would constitute an crimes to be charged as a single crime. However, if the interest protected by the Law is to maintain orderly competition, the substantive law should recognize the relation of the multiple crimes over property crime and infringement of trade secrets.

Unfair acquisition and use of information, each of which may constitute infringement of the competitive order but are acts that are related in terms of purpose and means, may be regarded as liable to be treated as a single infringement, and are considered to constitute connected crimes.

In the case of infringing a trade secret by acquiring information by theft and then unfairly competing using the information, there are plural acts offending plural interests protected by law, as well as a plurality of illegality and liability, and therefore these acts constitute a combined crime.

#### **4 Crime committed outside Japan/ extraterritorial application of Criminal Code**

In Japan, the cases where a person committing a crime outside of Japan is punishable under Japanese law are limited to cases of major offenses against national or social interests protected by law, and the scope of extraterritorial application of the Criminal Code is quite restricted. Judging from the perspective of comparative law, Japan can be said to have been generally conservative as to the punishment of crime committed outside of Japan, and, attaching importance to maintaining a balance with other crimes in the past, we consider it difficult to provide for the punishment of crime committed outside of Japan when we newly legislate for the crime of trade secret infringement. However, it should be noted that the international trend today is toward expanding punishment of crimes committed outside national territories, at a time when the movement of people and goods has become so liberalized and accelerated.

#### **5 Attempt**

For any of the crime patterns of Section 2(1)(iv), (v), (vii) and (viii) of the Unfair Competition Prevention Law, no provisions for punishment of attempt should be made. This conclusion is supported also from the standpoint of consistency with other laws. At present, no crime pattern with its interest protected by law as intangible property, such as Section 196 of Patent Law or Section 78 of Trademark Law, for example, has a provision for punishment of attempt. As long as even these crimes whose interests protected by law are intangible products that are made open and with clear scope of right do not have provisions for punishment of attempt, it would seem to lose the balance of the scope of punishment to make provisions for punishment of attempt of a crime whose interest protected by law is a trade secret that lacks such systematic back up.

#### **6 Complicity**

As for complicity, because of the general regulations in the Criminal Code, without a new regulation for its punishment, an act of involvement within the scope of Criminal Code's coverage shall be punishable. However, it is questionable whether the patterns of item paragraphs (v) and (viii) in Section 2(1) of Unfair Competition Prevention Law, which are acts similar to those actually constituting complicity with the patterns of paragraph (iv) or (vii), are also to be punished as principal offences. In conclusion, we consider that no regulation for punishment of the patterns of paragraphs (v) and (viii) should be made. This is because making

regulations for punishment of the patterns of paragraphs (v) and (viii) would problematically expand the scope of punishment while the merit of making such regulations does not seem to be so substantial.

#### **7 Case of larceny committed against relatives**

For most of the property crimes provided in the Criminal Code—specifically, theft, wrongfully taking possession of immovable property, computer fraud, breach of trust, extortion, embezzlement (including, in the conduct of business) and misappropriation of lost property—, special provisions are made for cases where crimes are committed against relatives. For these crimes, if committed against a “spouse, lineal relation or family member in the same household,” they shall be necessarily exempted, and if committed against another family member, they shall be indictable upon complaint.

The exceptional treatment for crimes among relatives is applicable only when there is kinship, in the case of the pattern of Section 2(1)(vii) of the Unfair Competition Prevention Law, between the perpetrator and the business entity holding the trade secret, and in the case of the pattern of paragraph (iv), also between the perpetrator and the person in charge of the trade secret. However, business entities holding trade secrets are mostly legal persons, with which there cannot be any kinship; therefore, the exceptional treatment for a crime among relatives is not scarcely applicable to an infringement of trade secrets.

#### **8 Limitation to public action**

The period of limitation for public action provided in the Code of Criminal Procedure is stipulated to be determined automatically depending on the scope of the statutory penalty. There is no stipulation that exceptionally reduces or extends this statutory limitation period either in the Criminal Code or in any other laws. Therefore, we consider that, for the crime of trade secret infringement, such exceptional provision should not be sought, and the provision for the period of limitation in the Code of Criminal Procedure should be applied.

#### **9 Issues on criminal procedure**

Section 82 of the Constitution stipulates the principle of open trial except in cases where publicity is dangerous to public order or morals.

Under this condition, if an act of infringing a trade secret is stipulated as a crime, a possibility arises that the trade secret itself that the law is going to protect by criminal penalty be further

damaged by being made public in the criminal proceedings. The question is, while avoiding this problem, whether we can work out an appropriate system that will seek reasonable coordination with the principle of open trial.

One way considered to coordinate the requirement of trade secret protection for the future and the issue of “publicity” accompanying the process of trial, may be, without a major reform of the current criminal judicial system, to stipulate the crime of trade secret infringement as indictable upon complaint. This is a way in which the very exercise of the right of prosecution of the state is made dependent on the injured party, by making prosecution subject to the will (whether a complaint is brought or not) of the owner of the trade secret, and the ultimate decision lies with the injured party himself and not the state, based on comparative consideration of the interests of foreseeable possibility of additional disclosure of trade secrets coming from the open trial, or in other words the degree of exposure and accompanying damage, versus the need of criminal penalty upon the offender, or prevention of a second offence, and sentiment about the punishment.

The Committee’s report also discussed the issues pertaining to “the right to make a complaint” in the case of making the crime of trade secret infringement indictable upon a complaint, and the exceptions to the principle of open trial.

## 10 Overseas research

For reference in the legislation in Japan introducing criminal penalty for better protection of trade secrets, research was conducted on the provisions for criminal penalties related to the protection of trade secrets in major countries. Specifically, for the U.S.A., Germany, the U.K., France, Italy, Canada, Korea and China, research was conducted in the following areas: ① the legislative reason for each provision of criminal penalty to protect trade secrets; ② the actual manner of operation of each provision of criminal penalty to protect trade secrets; and ③ evaluation of the current situation and problems of each provision of criminal penalty to protect trade secrets. The results of the research are included in the Committee’s report.

### **Committee on Research and Study on Guidelines on the Management of Trade Secrets in Business Entities**

The Intellectual Property Policy Outline suggested that guidelines for reference be drawn up so that companies can make up strategic programs for strengthening management of trade secrets.

The Committee on Research and Study on Guidelines on the Management of Trade Secrets in Business Entities discussed fundamentals for drawing up such guidelines. Based on the discussion in this committee, the guideline was published by Ministry of Economy, Trade and Industry on January 30, 2003.

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