

9 Research and Study on Reinforcement of Protection of Intellectual Property Based on the Unfair Competition Prevention Law (Protection of Trade Secrets and Measures Against Counterfeit Goods and Pirated Copies)

In this study, the necessary direction for amendment of the Unfair Competition Prevention Law was indicated in order to reinforce protection of intellectual property under the law in response to such a request in the Intellectual Property Strategic Program 2004. In this process, examination was made on the following points with regard to leakage of trade secrets that are managed in Japan, for the purpose of preventing outflow of know-how and technology of Japanese industry to other countries: (1) misuse/disclosure overseas; (2) malicious misuse/disclosure by a former employee; (3) a secondary participant concerned with a malicious offender; (4) introduction of criminal penalties against the corporation (offending corporation) to which a malicious offender belongs; and (5) the raising of penalty levels. In addition, study was made on the following points for the purpose of preventing inflow of counterfeit goods and pirated copies to Japan: (1) clarification of the definition provision of Article 2(1)(iii) of the Unfair Competition Prevention Law; (2) introduction of criminal penalties to Article 2(1)(ii) and (iii); and (3) application of border control measures (Customs Tariff Law) to goods that infringe the Unfair Competition Prevention Law.

In the study on reinforcement of protection of intellectual property based on the Unfair Competition Prevention Law (protection of trade secrets and measures against counterfeit goods and pirated copies) in fiscal 2004, industrial and social demands regarding the Unfair Competition Prevention Law were studied concretely and extensively, and the possibility for protection based on the Unfair Competition Prevention Law was examined. In conducting the study, the following committees were established based on the requests indicated in the Intellectual Property Strategic Program 2004: (i) a Study Committee on Ideal Ways to Protect Trade Secrets was established to study reinforcement of protection against leakage of trade secrets; and (ii) a Study Committee on Measures for Anti-counterfeit Goods, etc. Based on the Unfair Competition Prevention Law was established to verify the regulations on acts of preventing imitation of the configuration of goods, which has been in force for ten years, and reinforcement of border control measures and criminal penalties against counterfeit goods and pirated copies from overseas.

I Study Committee on Ideal Ways to Protect Trade Secrets

This study committee analyzed the criminal protection against leakage of trade secrets, which was introduced with the 2003 amendment of the Unfair Competition Prevention Law while considering the current status of the Japanese industry, demands from the industrial world, the actual situation of damage, the relationship with

other Japanese laws and regulations, and the comparison with overseas legal systems. Specifically, concrete examination was made on the following: (1) handling of trade secrets in criminal proceedings (possibility of introducing closed trial proceedings); (2) misuse/disclosure of trade secrets overseas; (3) misuse/disclosure of trade secrets by a former employee; (4) violation of trade secrets by secondary participants; (5) introduction of penalties on corporations based on dual liability; and (6) review of the penalty levels for violation of a trade secret.

1 Handling of trade secrets in criminal proceedings

The Law Partially Amending the Court Organization Law, etc. in 2004 enhanced protection of trade secrets in civil litigation by establishing requirements and procedures for making the closed trial proceedings in civil litigation involving trade secrets and introducing a protective order.

Based on this, the study committee examined the possibility of introducing a measure for making the closed trial proceedings, which is adopted for civil litigation, in criminal proceedings also. The biggest issue was the relationship with the Constitution of Japan.

In the relationship with the principle to make open trials under Article 82 of the Constitution, the point of dispute was whether or not disclosure of a trade secret was “dangerous to public order or morals” as under Article 82(2) of the Constitution. There was an opinion that the disclosure may contravene “public order” when

damage similar to the offense in question could occur as a result of the disclosure, because the interests protected by law against violation of trade secrets include “fair competition order.” Nevertheless, there was also an opinion that “public order” is interpreted as “a case where public safety is threatened, such as directly persuading the public to commit rioting or other offenses, that being the same meaning as law and order referred to in Article 59 of the Meiji Constitution,” so it would be an excessively broad interpretation to include the overall protection of trade secrets.

Next, the differences in the theoretical structure of provisions on civil proceedings and criminal proceedings were pointed out. With regard to civil proceedings, the trials are closed when a compromise is sought between the principle of making trials public under Article 82 of the Constitution and the right of access to courts under Article 32 of the Constitution, so as not to make the right of access to courts meaningless. On the other hand, as for criminal proceedings, the proviso to Article 82(2) of the Constitution stipulates the grounds for always making the proceedings related to criminal cases public, and the accused has the right to a public trial under Article 37(1) of the Constitution, as opposed to the case of civil proceedings. In addition, in criminal proceedings, the owner of the trade secret, who is the injured party, is not party to the trial, so while the injured party could enjoy the interest of the right of access to courts as the plaintiff in civil proceedings, he/she is not likely to enjoy such an interest in criminal proceedings.

2 Misuse / disclosure of trade secrets overseas

The interests protected by law with regard to trade secrets are the “property value of trade secrets” and “fair competition order,” and “property value” will be lost all the same whether a trademark secret is misused or disclosed in Japan or if it is misused or disclosed overseas. It is hoped that measures will be taken against the outflow of intellectual property across national borders in order to deal with the increase in the number of intellectual property-related disputes inside and outside of Japan pertaining to globalization. Furthermore, the legal systems of other countries (the United States, Germany, France, the Republic of Korea, and China) are all found to punish overseas leakage of trade secrets that are protected within the country. Therefore, it is a minimum requirement for Japan to adopt the same standard as overseas legal systems in order to maintain the competitiveness of the Japanese industry.

As a result of the discussions, the study committee found it desirable to apply criminal protection when an object to which Japanese law applies—that is, the trade secret that was managed within Japan when an act of violating the management controls occurred in the case of unlawful acquisition and when the trade secret was indicated in the case of lawful acquisition—is used or disclosed outside Japan.

3 Misuse / disclosure of trade secrets by a former employee

Under the current legal system, misuse/disclosure of a trade secret by a former employee is excluded from criminal punishment if the former employee has not reproduced or taken away a medium, etc. However, as many as 50 out of about 80 cases on leakage of trade secrets involved a former employee, though they are civil proceedings. There are also malicious cases in which a person promises another company to disclose trade secrets while working for a company, and then discloses those secrets after leaving the company.

Therefore, the study committee settled on a tentative direction to punish a former employee only if he/she has breached a confidentiality agreement that has been concluded under freedom of contract between the company and the former employee, considering the relationship with the freedom to choose and change one’s occupation under Article 22(1) of the Constitution. However, some problems were indicated, such as: it may be difficult in effect to conclude an agreement between the company and the former employee on equal terms despite the principle of freedom of contract; what kind of agreement concluded at what time should be regarded as the basis; and what should be the treatment for employees who refuse to conclude the agreement.

As a result, it was decided that the criminal penalties for breaching a confidentiality agreement will be studied in future by giving consideration to the establishment of practices concerning confidentiality agreements and other factors. Meanwhile, the study committee concluded that it would be appropriate to punish malicious cases in which an employee promises to leak a trade secret or unlawfully acquires a trade secret by solicitation before quitting, and uses or discloses the trade secret after quitting their job, even under the right of freedom to choose one’s occupation.

4 Violation of trade secrets by secondary participants

Under the current law, a secondary participant

is punished only if he/she is an accomplice of the person who makes an unlawful disclosure. For this point, in the committee, it was discussed whether or not to make the secondary participant a principal offender, and as a result, it was decided that the secondary participant should be made a principal offender.

Then, the study committee examined the act subject to making the secondary participant a principal offender. There were two options: (1) to make an act of “acquiring” a trade secret from an unlawful discloser subject to a penalty; and (2) to make an act of “using or disclosing” the trade secret acquired from the unlawful discloser subject to penalty. In consideration of consistency with Article 14(1)(iii) of the Unfair Competition Prevention Law, which makes all acts of “using or disclosing” a trade secret “acquired” through acts that correspond to offenses—such as fraud or violation of management controls—subject to penalties, the study committee found it more appropriate to adopt (2).

With regard to the handling of tertiary and quaternary participants, the study committee decided that it would be appropriate not to establish special provisions for those who acquired the information from the secondary participant, and that the accomplice theory should be applied instead, because they have a low level of recognition that the “acquired” information is a trade secret.

5 Introduction of penalties on corporations based on dual liability

Penalties on corporations have not been introduced for violation of trade secrets for the purposes of (i) protecting the trade secret owner, (ii) protecting the person who changed jobs, and (iii) protecting the clients.

However, violation of trade secrets, which involves “the purpose of unfair competition,” premises competition between business operators. Therefore, penalties on corporations are usually adopted in some other countries. In addition, penalties on corporations are introduced as a rule in intellectual property laws including the Patent Law and the Copyright Law. Introduction of penalties on corporations could make companies reluctant to hire people who are switching jobs and could hinder the mobility of employment. Nevertheless, because violation of trade secrets is by nature assumed to be conducted as an organization for corporate interests rather than for an individual’s interests, and corporations often seem to fail to perform the duty of care in selecting and supervising employees in such cases, penalties on corporations must be introduced in order to secure a deterrent effect against acts of violation.

Based on these points, the study committee settled on introducing penalties on corporations also for violation of trade secrets while considering protection of the three parties above.

Next, acts to be subject to penalties on corporations were examined. As a result, the study committee considered it appropriate to apply the penalties only to “acts committed by a party unauthorized to access” (current Article 14(1)(iii); current Article 14(2)(iv); involving a secondary participant), which are considered to be particularly malicious.

In addition, it was concluded that, in the case where a director or an employee (unauthorized to access) of a corporation that owns a trade secret violates the trade secret by unlawful acquisition, the corporation will become the injured party, so the principle of not punishing the injured party will apply, and there will be no need to establish special provisions for such a case.

The study committee decided it was reasonable to expect the government to consider establishment of guidelines and standards concerning the content of the duty of care in selecting and supervising employees.

6 Review of the penalty levels for violation of a trade secret

The current penalty on violation of a trade secret is imprisonment of up to three years or a fine of up to three million yen. On the other hand, according to the questionnaire survey conducted on the industrial sector, more than 70 percent of the respondents agreed with raising the penalty levels to the same level as that of other intellectual property right laws such as the Patent Law and the Copyright Law (imprisonment of up to five years or a fine of up to five million yen; a fine of up to 150 million yen for a corporation; concurrent imposition of imprisonment and a fine in the case of the Copyright Law) or to the same level as that for theft, etc. under the Penal Code (imprisonment of up to ten years).

In light of the fact that trade secrets are protected from the creation phase without registration, the study committee decided on the need to raise the levels to the same level as that of the Copyright Law, which provides protection of a similar nature.

Furthermore, considering that the subjective element of violation of a trade secret is “the purpose of unfair competition,” and that the offense is committed for gaining a competitive edge or gain, it would effectively emphasize the impression of the criminal penalty to impose a fine and deprive the offender of a reasonable amount of money irrespective of whether imprisonment is imposed. Therefore, the study committee concluded that an introduction of

concurrent imposition of penalties would also be necessary.

II Study Committee on Measures for Anti-counterfeit Goods, etc. Based on the Unfair Competition Prevention Law

With an increase in the inflow of counterfeit goods and pirated copies from neighboring Asian countries to Japan in recent years, various problems are occurring including the tarnishing of corporate brands' credibility and reliability, damage of consumers who are misled to believe that counterfeit goods are genuine goods, counterfeit goods serving as financial sources for antisocial forces, and the advancement of counterfeit techniques. In order to address these problems, the study committee examined the possibility of amending the Unfair Competition Prevention Law by conducting the following to clarify the content of protection against counterfeit goods and pirated copies under the law: (1) verification of Article 2(1)(ii) ten years after introduction; (2) verification of Article 1(3)(iii) ten years after introduction; (3) examination on introducing criminal penalties to Article 2(1)(ii); (4) examination on introducing criminal penalties to Article 2(1)(iii); (5) examination on introducing border control measures for goods in violation of the Unfair Competition Prevention Law; (6) examination of measures against new modes of copying such as dead copy of databases or typefaces, etc.; (7) examination of industrial sector demands concerning the Unfair Competition Prevention Law and the legal system for protecting the configuration of goods.

1 Verification of Article 2(1)(ii) ten years after introduction

The provision under Article 2(1)(ii), which is intended for protecting the indication of eminent goods in goods or services fields where the trademark for the eminent goods is not registered, is important as a measure against counterfeit brand goods.

When the court decisions during the ten years from the introduction were verified, there were many cases where the plaintiff selectively claimed application of Article 2(1)(i) and (ii), and when the court cannot find the goods to be eminent after examination, the court considers application of Article 2(1)(i) by judging whether the goods are well-known. Therefore, although Article 2(1)(i) and (ii) differ in terms of the purpose of legislation, continuity was observed in their application.

The study committee considered it desirable

to continue studying the future direction of the system with regard to Article 2(1)(ii) including its relationship with the defensive mark system.

2 Verification of Article 2(1)(iii) ten years after introduction

According to the reference material of the Industrial Structure Council at the time of legislation, the purpose of legislation of Article 2(1)(iii) is to regulate free-riding on achievements made by other peoples' investments, and to protect the interests of preceding persons. However, its basis differs among people, and this affects the discussions on how this provision should be stipulated.

The study committee made concrete examination including verification of court decisions particularly concerning the following points, and summed up the future directions for the respective issues.

(1) With regard to the scope of the right holder, "a person who needs to block unfair competition conducted by copying and to maintain the preceding party's monopoly of the configuration of goods in order to protect one's own profits, and who has a strong interest in the monopoly of the configuration of goods" is construed as qualifying as a plaintiff as mentioned in the court decision in the Nu-Bra case.

(2) With regard to extension of the term of protection, some people support the idea to extend the term from three years to about five years in practice, but because the design system is currently under review for reform, many people viewed that it would be appropriate to take measures based on the reformed design system.

(3) With regard to clarification of the time from which the protection starts, many people opined that the problem is whether or not "business interests" were infringed, and there is no need for such clarification in particular.

(4) With regard to the meaning of "the date selling thereof first commenced," it will be reasonable to clarify that this date means the date on which the goods were first sold in Japan, considering the time of entrance into Japan and the ease of proof at the time of litigation.

(5) With regard to the meaning of "the configuration of goods," the majority agreed that protection can be extended to the part of the internal configuration of the goods, which is recognizable for consumers in ordinary use, but a consistent view could not be achieved on clarifying the meaning by stipulating a definition provision of "the configuration of goods."

(6) With regard to the meaning of "a configuration which is commonly used for goods," the phrase analytically means "a commonplace configuration" or "a shape indispensable for securing the

function of the goods,” so it is desirable to consider clarification of the meaning based on this point.

(7) With regard to the meaning of “imitated,” the purpose of this provision at the time of legislation was to protect “dead copies,” while there is an established interpretation in court decisions that imitation is to make an “identical or practically identical” configuration by “copying the configuration of another person’s goods,” it is desirable to clearly indicate this interpretation as a definition provision and to increase the foreseeability.

3 Introducing criminal penalties to Article 2(1)(ii)

In the study committee, there was also an opinion to exercise caution in introducing criminal penalties, but it was decided that criminal penalties should be introduced only for particularly malicious acts considering the current situation of counterfeit damages.

Specifically, the study committee concluded that criminal penalties should be introduced only when the act under Article 2(1)(ii) is conducted “for the purpose of gaining illicit interests by using another person’s credibility or reputation” or “for the purpose of tarnishing another person’s credibility or reputation,” in light of the legislative purpose of Article 2(1)(ii).

4 Introducing criminal penalties to Article 2(1)(iii)

Provisions on dead copies of the configuration of goods were introduced with the 1993 amendment of the Unfair Competition Prevention Law, but in recent years, the technical means for copying are becoming more advanced, and the methods for distributing counterfeit goods are becoming more malicious, such as removing the original marks. In addition, considering that distribution of counterfeit goods is becoming globalized and that trading of counterfeit goods is serving as the financial source for antisocial forces, there are limits to dealing with these counterfeit goods by civil protection, and it has become inevitable to introduce criminal measures and expect police to demonstrate their investigative and executive abilities. Furthermore, while this provision is complementary to the Design Law in that it protects industrial designs, criminal penalties are already stipulated for acts of infringing design rights, so it is also necessary to introduce criminal penalties to acts of copying the configuration of goods in order to make the provision complement the Design Law in a complete manner.

Thus, due to the importance of clarifying the constituent elements in introducing a criminal penalty provision in Article 2(1)(iii), the study committee decided that it is desirable to clarify the constituent elements by clarifying the definition provision as explained in 2 above and other measures, as well as stipulate “the purpose of gaining illicit interests” as the subjective element for regulating only persons who intend to misuse another person’s prior investment or intellectual work and make illicit interests by selling goods that imitate the configuration of the other person’s goods.

5 Introducing border control measures for goods in violation of the Unfair Competition Prevention Law

While design-infringing goods and trademark-infringing goods are subject to border control measures based on the Customs Tariff Law, goods that constitute an act of unfair competition are not subject to the border control measures even if they are extremely similar cases. Nevertheless, the damage from inflow of counterfeit goods and pirated copies to Japan is increasing in line with the advancement of counterfeit techniques and globalization of counterfeit goods distribution, and it is desirable to make goods that constitute an act of unfair competition also subject to border control measures in order to enhance the effectiveness of the measures. However, as border control measures at customs have a large impact on the business of the person whose goods are stopped at the border, the system must be designed by giving consideration to compliance with international rules and protection of due process of law.

Thus, the study committee decided that it is desirable to add goods that constitute an act of unfair competition to import-prohibited goods under Article 21 of the Customs Tariff Law, and in order to make its operation more effective, make those goods also subject to the system to request a suspension of import (Article 21bis of the Customs Tariff Law), based on a premise that the regulated acts are clarified by limiting the constituent elements for criminal protection as explained in 3 and 4 above.

6 Dead copy of databases

The Unfair Competition Prevention Law does not have special provisions concerning protection of databases, and databases, which do not involve creativity, are not protected under the Copyright Law either. However, creation and updating of databases sometimes requires an enormous amount of investment. Thus, there is

an indication that lack of legal protection would reduce incentives for database creators and impede economic activities. A legal system to protect databases has been established in the EU and the Republic of Korea in recent years, so continuous study must be made on the most desirable legal system for protecting databases in Japan, based on these overseas legal systems.

7 Possibility of applying the Unfair Competition Prevention Law to new modes of copying

It was indicated that discussions should be made in the future about introducing a general provision on new modes of copying, such as acts of copying the logic circuit of a semiconductor integrated circuit, or adding these modes to the acts of unfair competition, or taking both measures, after making a comparative study of the Copyright Law, the Law Concerning the Circuit Layout of Semiconductor Integrated Circuits, and overseas legal systems.

8 Industrial Sector demands concerning the Unfair Competition Prevention Law

Extensive opinions and demands were presented on desirable protection under the Unfair Competition Prevention Law against counterfeit goods and pirated copies in light of the actual situation of damage with the cooperation of various quarters of industry, as the basis for the discussions at the study committee and as future challenges concerning the Unfair Competition Prevention Law. Thus, these opinions and demands are introduced.

9 Protection of industrial designs under Article 2(1)(iii) of the Unfair Competition Prevention Law

With regard to the possibilities and limitations of protection of industrial designs under Article 2(1)(iii), concrete examination was made on the actual status of creation and protection of industrial designs and the relationship with the Copyright Law and the Design Law under the viewpoints of: (1) current situation of industrial designs; (2) relationship between industrial designs and Article 2(1)(iii) of the Unfair Competition Prevention Law; (3) considerations of protection of industrial designs; and (4) improvement of the system for protecting industrial design rights. Based on this examination, proposals were made on the way in which industrial designs should be protected under Article 2(1)(iii).

In addition, with regard to the possibilities of strategically using Article 2(1)(iii) for companies

and its positioning in the overall industrial design protection strategy, proposals were made on the actual examples of strategic utilization in companies, expectations for the Design Law, and the possibility of utilizing the Unfair Competition Prevention Law that complements the Design Law under the viewpoints of: (1) current situation of design protection in companies; (2) relationship between intellectual property laws and value of commercial products; (3) comparison between the Design Law and the Unfair Competition Prevention Law; and (4) strategic utilization of Article 2(1)(iii) and its positioning in industrial design protection strategy.

(Senior Researcher: Isao Hyugaji)