

## 2005 Amendment of the Unfair Competition Prevention Law\*

Fair Trade Committee

### (Abstract)

The Law Partially Amending the Unfair Competition Prevention Law, etc. (Law No. 75 of 2005) was enacted on June 22, 2005, and promulgated on June 29 of the same year, to enter into force on November 1, 2005. Since the competitive environment in business activities is increasingly intensifying on a global scale, reinforcement of intellectual property (IP) protection is essential for companies to maintain and strengthen their competitiveness. The Intellectual Property Policy Outline and the Intellectual Property Strategic Program 2004 have set out plans for law amendments to strengthen IP protection, these plans have been accomplished step by step, and the Unfair Competition Prevention Law has also been amended as part of such plans. Specifically, new penal provisions were added to the criminal penalties for misuse of trade secrets, which had been introduced in 2003, to introduce criminal penalties for imitation of the configuration of another person's goods and misappropriation of another person's famous indications. In addition, the penal provisions against acts of unfair competition were made more strict. Furthermore, as the amendment also made punishable persons who have violated courts' protective orders related to trade secrets outside Japan, it was decided to establish similar provisions in the Patent Law, the Utility Model Law, the Design Law, the Trademark Law, and the Copyright Law as well. This report describes the details of the amendment law.

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## 1. Introduction

Misappropriation of another person's achievement, which constitutes an act of unfair competition, inhibits fair competition and infringes the business interests of others. Specific examples include damages from rampant counterfeits and pirated copies imitating brands or

designs, and leakage of trade secrets such as technical information and customer information that have been acquired through corporate efforts. In order to accumulate and protect useful and valuable achievements in business activities, it is necessary to provide legal measures that can be taken promptly and appropriately against business operators conducting acts of unfair competition.

The Unfair Competition Prevention Law (hereinafter referred to as the "UCPL") introduced protection to trade secrets with the 2000 amendment, and provided for civil remedies against misappropriation of famous indications and imitation of the configuration of goods by regarding them as types of unfair competition with the 2003 amendment. However, the protection had not been sufficient in light of international standards, and demands for the upgrading and expansion of remedial measures arose due to an increase in damages.

While criminal penalties were introduced for trade secret protection in 2003, the introduction of measures against retired employees without acquiring any media or those who committed the crime outside Japan had been shelved. With

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regard to damages caused by counterfeits and pirated copies, the need for more appropriate legal measures than civil solutions had been recognized, since civil solutions would be difficult and involve risks.

Under these circumstances, the Law Partially Amending the Unfair Competition Prevention Law, etc. (Law No. 75 of 2005) was enacted on June 22, 2005, promulgated on June 29 of the same year, and entered into force on November 1, 2005.

Chapter 2 of this report introduces the measures against counterfeits and pirated copies, and Chapter 3 introduces the stronger criminal penalties concerning trade secrets.

## 2. Measures against counterfeits and pirated copies

One of the factors that prompted the recent amendment of the UCPL was the inundation of counterfeits and pirated copies within Japan. This is considered to be a result of the recent remarkable improvement in counterfeiting technology in Asian countries, which has raised the quality of counterfeits and pirated copies, leading to an enormous increase in the flow of counterfeits and pirated copies into Japan. If the inundation of counterfeits and pirated copies is left as it is, not only companies' brand images will be tarnished, but also the damages of consumers, who bought the counterfeits and pirated copies believing they were genuine, will not be ignorable.

The Intellectual Property Strategic Program 2004 indicated the introduction of border enforcement against goods that violate the UCPL and stronger domestic regulation of imitations of the configuration of goods, among others, as the measures to be taken against counterfeits and pirated copies, and the progress in the government's all-out effort on this matter have resulted in the implementation of this law amendment.

### 2.1 Introduction of criminal penalties for misappropriation of famous indications (Article 2(1)(ii))

#### Article 2

(ii) the act of using an indication of goods or

business that is identical or similar to said other person's indication of goods or business that is famous among consumers or other purchasers, or by selling or otherwise transferring, delivering, displaying for the purpose of sale, transfer or delivery, exporting, importing or providing through an electric telecommunication line goods using such an indication.

#### (1) Purpose of introduction

Criminal penalties for misappropriation of famous indications were introduced in order to strengthen the regulation of acts of free-riding on the fame of another person's indication of goods or business.

#### (3) Key points of amendment

With regard to the actual amendments made, it was stipulated in the principal sentence of Article 21(1) that, "Any person who falls under any of the following items shall be punished by imprisonment with labor for not more than five years or a fine not more than 500 million yen, or both," and in Article 21(2) that, "a person who, for the purpose of acquiring an illicit gain through the use of reputation or fame pertaining to another person's famous indication of goods or business, or for injuring said reputation or fame, commits any act of unfair competition listed in Article 2(1)(ii)."

Whereas former Article 14(2)(i), which made former Article 2(1)(i) subject to criminal penalties, used the phrase "for an illicit purpose," the new provision states, "for the purpose of acquiring an illicit gain ..... or for injuring said reputation or fame," imposing a subjective requirement that has clarified the "illicit purpose" in a more restrictive manner.

### 2.2 Introduction of criminal penalties for imitation of the configuration of goods (Article 2(1)(iii))

#### Article 2

(iii) the act of selling or otherwise transferring, leasing, displaying for the purpose of sale, transfer or lease, exporting or importing goods, which imitate the configuration of another person's goods (excluding a configuration that is indispensable for ensuring the function of said goods)

## (1) Purpose of introduction

Criminal penalties for imitation of the configuration of goods were introduced in order to strengthen the regulation of “copied goods.”

## (3) Key points of amendment

With regard to the actual amendments made, the expression, “A person who, for the purpose of acquiring an illicit gain, commits any act of unfair competition listed in Article 2(1)(iii),” was adopted in Article 21(2). This provision also states, “for the purpose of acquiring an illicit gain,” imposing a subjective requirement that has clarified the illicit purpose in a more restrictive manner, for the same reason as for Article 2(1)(ii). The penalty was stipulated in Article 21(2) as, “imprisonment with labor for not more than three years or a fine not more than 300 million yen,” similar to Section 69 of the Design Law, in order to achieve balance with the Design Law, since it deals with protection of the configuration of goods. Also, a provision to impose both imprisonment with labor and a fine together was also introduced.

In addition, the manner in which the provisions are stipulated was changed, and Article 19(1)(v) was established to provide for cases that are excluded from application of Article 2(1)(iii).

As for former Article 2(1)(iii), about ten years have passed since its entry into force (May 1, 1994), and based on it, a considerable number of court judgments have accumulated, so amendments were made mainly with respect to imitation, the configuration of goods, the term of protection, and the time when the protection starts, in order to make the provisions clearer. The term “imitate” was defined in Article 2(5) as, “an act of creating goods of practically identical configuration as that of goods of another person based on the configuration of the goods of said other person.”

“Configuration of goods” was defined in Article 2(4) as, “the external and internal shape of goods and the pattern, color, gloss, and texture combined with such shape, which may be perceived by consumers or other purchasers when making ordinary use of the goods,” clarifying that the internal shape of goods that can be recognized in ordinary use is covered. Moreover, the phrase, “a usually adopted configuration” that had been used for stipulating the type of

configuration that is excluded from the “configuration of goods” was made more specific by stipulating, “a configuration that is indispensable for ensuring the function of said goods” in Article 2(1)(iii). As for the “term of protection,” there was an argument that three years is too short, but this amendment was shelved in the end, concluding, “No special changes in circumstances are observed that would require amendment of the term of protection.” With respect to the “starting point of the computation of the term of protection,” the former provision, “for which three years have elapsed from the date they were first sold,” was revised to “for which three years have elapsed from the date they were first sold in Japan,” clarifying, in line with the introduction of criminal penalties, that the starting point of the computation shall be “the sales in Japan” in terms of geography (Article 19(1)(v)(a)).

### 2.3 Introduction of border enforcement against goods infringing the UCPL

It is effective to detect IP right infringing goods that flow into the Japanese market from overseas at the border, that is, at the time of customs clearance. The Customs Tariff Law, which provides for import tariffs, includes stipulations about import-prohibited goods that are dealt with by the Ministry of Finance and Customs. Conventionally, the Customs Tariff Law had a provision regarding import-prohibited goods stating, “the following goods shall not be imported,” in Article 21(1) of the law, and mentioned, “goods that infringe on patent right, utility model right, design right, trademark right, copyright, neighboring rights, right of layout-designs of integrated circuits, or plant breeder’s right” as such goods in Article 21(1)(ix) of the law. However, the law had not covered goods that cause confusion with well-known indications, goods that misappropriate famous indications, and imitations of the configuration of goods, whose import is regulated under the UCPL (hereinafter referred to as “goods infringing the UCPL”).

While counterfeits and pirated copies are ubiquitous in Japan, and the inflow of such goods from other Asian countries to Japan has been dramatically increasing in recent years, as repeatedly mentioned above, only goods infringing the Design Law and the Trademark Law

were subject to border measures, and very similar goods infringing the UCPL were not, so the border enforcement measures were not sufficiently effective. Therefore, there was a strong demand for the introduction of Customs' border enforcement for stopping the entry of goods infringing the UCPL at the border.

Accordingly, it was decided to make goods infringing the UCPL part of the import-prohibited goods in Article 21(1) of the Customs Tariff Law and subject to the petition procedure relating to import-prohibited goods in Article 21-2 of the Customs Tariff Law. Since goods can be seized all at once nationwide at Customs when they are crossing the border, this would be an extremely effective measure against counterfeits and pirated copies. However, as this petition procedure gives an effect equivalent to or greater than a provisional disposition without undergoing litigation proceedings, many indicated the need for "clarification of the goods subject to an injunction" and "securing appropriate procedures." Therefore, these issues were addressed by establishing a system to seek the opinion of the Minister of Economy, Trade and Industry in order to allow the Customs to determine infringement promptly and appropriately at the border.

With regard to "clarification of the goods subject to an injunction," a person having the right to require an injunction shall directly seek the opinion of the Minister of Economy, Trade and Industry about whether or not the indication of goods or business of that person is "well-known" (Article 2(1)(i) of the UCPL [well-known indication of goods or business]), and submit the written opinion to the Director-General of Customs (Article 21-2 of the Customs Tariff Law).

On the other hand, with regard to "securing appropriate procedures," the Director-General of Customs may seek the opinion of the Minister of Economy, Trade and Industry on whether or not the case falls under Article 2(1)(i), (ii), or (iii) of the UCPL, in the actual procedure of determining whether the allegedly infringing goods constitute infringement. (Article 21-4-2 of the Customs Tariff Law).

The amended Customs Tariff Law entered into force on March 1, 2006.

### 3. Stronger criminal protection of trade secrets

#### 3.1 Key points of the 2005 amendment

The amendment was made in order to expand measures against trade secret infringement overseas and information leakage related to the increasing mobility of employment, among others, and to maintain an appropriate, competitive environment, in response to the recent intensification of global competition owing to factors including the industrial development of Asian countries.

The points of the amendment related to stronger criminal protection of trade secrets are:

- (i) introduction of penalties for use or disclosure of trade secrets outside Japan;
- (ii) introduction of penalties for retirees;
- (iii) introduction of corporate penalties; and
- (iv) review of the penal provisions, specifically, making the penalties more strict, from imprisonment with labor for not more than three years or a fine not more than three million yen to imprisonment with labor for not more than five years or a fine not more than five million yen, and imposing both imprisonment and a fine in some cases.

#### 3.2 Introduction of penalties against misuse and improper disclosure of trade secrets by retirees (Article 21(1)(viii))

##### Article 21

(viii) a person who is an officer or an employee of a trade secret holder from whom a trade secret has been disclosed, and, for the purpose of unfair competition, offers to disclose it in breach of the duty to keep safe custody of the trade secret, or receives a request for its use or disclose while in office, and uses or discloses it after leaving the job (except for a person prescribed in Item 6)

##### (1) Significance of the introduction

Since there actually is a frequent occurrence of incidents where an officer or an employee rightfully acquires a trade secret while in office, and uses or discloses it after retirement, the former criminal penalties (former Article 14(1)(v) and (vi)) were considered to be insufficient for protecting trade secrets. Therefore, this item was added as another type of punishable offense.

## (2) Typical examples

Examples of this type of offense are shown below.

## (i) Example relating to an “offer”

An employee who had been involved in the manufacture of a new component to be used for his company’s (Company A) product was hoping to work for a competing company (Company B) where his friend worked. In order to win better employment conditions in the employment negotiation, he offered to tell Company B information about the composition of the new component when he starts working for them, and an employment agreement was reached. After changing the job, he told the information to engineers of Company B, and the engineers used the information for conducting development for Company B.

## (ii) Example relating to a “request”

A manufacturing director was offered, through a headhunter, a position in a foreign company that was planning to manufacture the same kind of product as his company’s (Company A) product. Also, he was asked to construct an identical facility as that used for manufacturing Company A’s product, which was a trade secret, when he starts working for the foreign company (Company B). As the employment conditions were attractive, he decided to change his job. After he retired from Company A, he developed and produced the same kind of facility for Company B by applying the technical features of the manufacturing facility that he had gained in the course of his duties in Company A.

## (3) Requirements

## (i) Actor

Similar to the criminal penalties for use or disclosure of a trade secret for the purpose of unfair competition by an officer or an employee while in office, which is prescribed in the preceding item (Article 21(1)(vii)), the officer or the employee who rightfully acquired the information that was kept in safe custody from the business operator while in office is to be punished.

While an officer is defined in the preceding item, an employee is not defined. Generally, an employee is a person who is under an employment agreement with a business operator, including not only full-time employees, but also

temporary workers and part-time workers.<sup>1)</sup>

## (ii) “For the purpose of unfair competition”

This is the same requirement as that for the criminal penalties before the amendment. It means the purpose to give a competitive edge to a specific competitor including himself/herself or the purpose to inflict damage on such competitor, and excludes the purposes of press reporting and whistle-blowing. In this item, as long as the trade secret of the business operator for which the perpetrator previously worked is also useful for a competitor (not limited to the business operator of the new workplace), the competitor will be able to gain a competitive edge by using such a trade secret, so the competitor’s use of the trade secret in business for such a purpose corresponds to the “purpose of unfair competition.”

## (iii) “While in office”

The term “while in office” refers to the period during which an officer or an employee is under a delegation agreement or an employment agreement with a business operator, and includes the time during a leave of absence from work or during holidays.

## (iv) “In breach of the duty to keep safe custody of the trade secret”

Similarly to the preceding item (Article 21(1)(vii)), the “duty to keep safe custody of the trade secret” is not only the duty to keep a trade secret that was individually imposed by a confidentiality agreement or the like, but also the general duty to manage trade secrets under the delegation agreement or the employment agreement with the business operator even if there is no expressly imposed secrecy obligation. Specifically, this would be determined on a case-by-case basis according to the status of availability and operation of the business operator’s rules on information management, the details of the employment agreement, and the status of job performance responsibilities of the officer or the employee, among other matters.

## (v) “Offers to disclose” the trade secret or “receives a request for its use or disclose”

These requirements were stipulated in order to limit the acts to malicious acts that are considered to deserve criminal penalties.

## (a) “Offers to disclose” the trade secret

The phrase “offers to disclose it” refers to an act of voluntarily proposing to disclose the trade secret to a third person. Whether or not that person agreed to it is irrelevant. Conversely, it does not include a case where a person does not make an explicit offer to a third person, and the intention stays only inside of him/her. The third person can be any person, and the place of making the offer of disclosure can either be inside or outside of Japan. Meanwhile, as long as there is some kind of relationship between the person to whom the offer of disclosure was made and the person to whom the trade secret was actually disclosed, this item shall be applied. In other words, if the two persons work for the same business operator, this item will naturally be applied even if they were different people (e.g., making an offer to a personnel affairs staff member and disclosing to an engineer).

## (b) “Receives a request for its use or disclose”

This means to be asked for by a third party. This “request” is the same “request” that is a constituent element of the bribery offense in the Penal Code. The asked officer or employee does not need to have expressed an intention to accept the request, and implied consent would suffice, but he/she at least needs to have an intention to accept. It also includes a request made outside Japan. As well, it includes a request from another officer or employee working for the same business operator (such as when being invited by an officer planning to start an independent business, and quitting the job to work for the company set up by such officer, bringing with him trade secrets of the previous company).

## (vi) “Uses or discloses it after leaving the job”

“After leaving the job” means after the termination of the employment agreement or the delegation agreement with the business operator. Whether the person was dismissed by the business operator, or quit voluntarily, or retired under the age limit is irrelevant. The retiree does not necessarily have to work for the next business operator.

## (4) Others

This item is different from Article 21(1)(vi) (former Item 5) in that an act of taking

possession of or reproducing the trade secret is not required. If the retiree had taken possession of or reproduced the trade secret, Article 21(1)(vi) will apply (written in parentheses at the end of this item). Therefore, this item will be applied to cases in which criminal penalties cannot be imposed based on Article 21(1)(vi).

### 3.3 Introduction of criminal penalties for use or disclosure by the second acquirer (Article 21(1)(ix))

(ix) a person who, for the purpose of unfair competition, uses or discloses a trade secret acquired by criminal disclosure prescribed in Item 4 or Items 6 to 8

## (1) Significance of the introduction

This item punishes a person who has acquired a trade secret (second acquirer) from the person who acquired the trade secret from its holder (first acquirer) for misusing or improperly disclosing the trade secret.

Under the amendment law, not only the second acquirer, but also the first acquirer is considered the principal, and the original trade secret holder is considered an accomplice of the first acquirer. In other words, this amendment is aimed at also punishing the trade secret holder as an accomplice by making the second acquirer subject to criminal penalties as an independent principal through stipulating the constituent elements of the offense for the second acquirer. However, if the trade secret is further acquired by yet another person from the second acquirer, such person cannot be punished even under the amendment law.

## (2) Typical example

A trade secret holder specified the manufacturing know-how it developed as a trade secret, and kept a CD containing the know-how in a locked safe. Then, the first acquirer trespassed on the trade secret holder’s factory, stole the CD, and sold it to the second acquirer, who was the trade secret holder’s competing manufacturer. In order to compete with the trade secret holder’s product (A), the second acquirer manufactured a product (A’) using the trade secret contained in the CD while being aware that the CD was stolen from the trade secret holder.

## (3) Requirements

## (i) Actor

The actor is the second acquirer of the trade secret. The second acquirer is a person who acquired a trade secret from the person who acquired the trade secret from the trade secret holder (first acquirer). A person to whom the trade secret is disclosed by the second acquirer is not considered as an actor in this item. However, it is possible to punish such a person as an accomplice, as mentioned earlier.

## (ii) Object of the act

The object of the act is the trade secret disclosed by the first acquirer.

## (iii) Presence of a “purpose of unfair competition”

The second acquirer must have the purpose of unfair competition (the purpose to give a competitive edge to a specific competitor including himself/herself or the purpose to inflict damage on such competitor) both when acquiring the trade secret and when using or disclosing the trade secret. The purposes of whistle-blowing and press reporting, which do not involve such a purpose of unfair competition, do not correspond to the constituent element under this provision. Whether or not the person to whom the trade secret was disclosed by the second acquirer had the purpose of unfair competition is irrelevant to constitution of the offense.

## (iv) Modes of acquiring the trade secret

The first acquirer needs to have made a disclosure that corresponds to any of the offenses in Article 21(1)(iv) or Article 21(1)(vi) to (viii), and the second acquirer needs to have acquired the trade secret through this disclosure. An act of disclosure prescribed in any of the items above is required as a constituent element under Article 21(1)(ix). However, the person who made the disclosure does not actually need to be punished.

If the second acquirer has acquired the trade secret by means that do not fall under the items above (e.g., if the first acquirer left his personal computer on the train, and the second acquirer brought the personal computer home and acquired the trade secret contained therein), he/she is not considered to have violated Article 21(1)(ix). Acquisition of a trade secret through

the disclosure pursuant to Item 9 itself is not covered by Item 9, and as mentioned earlier, a person who acquires the trade secret from the second acquirer cannot be punished.

## (v) “Uses or discloses a trade secret”

In this context, “use” means to use a trade secret as a means to gain a competitive edge. Whether or not the gaining of an edge was successful is irrelevant to the establishment of this offense. “Disclose” means an act of telling the trade secret to a third person. When the trade secret was stolen by a third person or when the trade secret was leaked to a third person against the second acquirer’s intention, it does not correspond to “disclosure.” Whether the person to whom the trade secret was disclosed was a single person or multiple persons, or a specified person or an unspecified person, is irrelevant. There is no limitation to the method of disclosure either. Since the second acquirer needs to use the trade secret or disclose it to a third person, if he/she merely possesses the trade secret, this item does not apply.

### 3.4 Introduction of an offense of use or disclosure of a trade secret outside Japan (Article 21(4))

#### Article 21

(4) The offenses prescribed in Paragraph 1, Item 4 or Items 6 to 9 shall also apply to a person who committed them outside Japan for a trade secret that had been kept within Japan at the time of the fraudulent or other unlawful act or the control-violating act, or at the time the trade secret was disclosed by its holder.

## (1) Significance of the introduction

This paragraph makes an act that would constitute an offense of infringement of a trade secret when committed inside Japan (use or disclosure) also punishable when committed outside Japan. It covers all acts of use or disclosure under Article 21(1)(iv) and Article 21(1)(vi) to (ix) (but not Article 21(1)(iv)). It clarified the protected object as being “a trade secret that had been kept within Japan,” while maintaining the conventional idea of the territoriality principle. In other words, in addition to the rule on the territorial reach that penalties are determined based on “whether or not the place of use or dis-

closure was within Japan,” irrespective of the place where the trade secret was acquired, this amendment made use or disclosure outside Japan also punishable by providing that penalties are determined based on “whether or not the trade secret had been kept within Japan” at the time of the fraudulent act, etc., irrespective of the place of use or disclosure.

## (2) Typical example

A typical example for this paragraph is a case where an employee of a manufacturing company takes an overseas trip every weekend to provide technical guidance on know-how including the company’s trade secrets to the company’s competitor as a part-time job.

## (3) Requirements

### (i) Actor

The actor is a person who committed any of the offenses under Article 21(1)(iv), (vi), (vii), (viii), and (ix) outside Japan. Since the need for penalties does not differ between Japanese and non-Japanese, the provision is applied irrelevant to the nationality of the actor, similar to before the amendment.

All of these offenses are categorized as offenses of “use or disclosure” of trade secrets, and the actor is punished under this paragraph even when any of the offenses of “use or disclosure” specified in the respective items is committed outside Japan.

Incidentally, it is possible to consider that the offense under Article 21(1)(vi) is an act of “using or disclosing” after “taking possession or reproducing” the trade secret. According to this idea, it would have been possible, at least regarding Article 21(1)(vi), to punish the act as an offense committed inside Japan, even before the amendment, if the trade secret was taken possession of or reproduced within Japan, by deeming that the offense was partially committed inside Japan. However, the amendment is considered to have resolved this issue by way of legislation.

The offense under Article 21(1)(v) is excluded. This is because, whereas Article 21(1)(iv) is a highly illegal type of act, Article 21(1)(v) is an act of improper acquisition in preparation for that act, so it is an offense of “acquisition” to be punished as an offense of preparation.

When the offense of “acquisition” under

Article 21(1)(v) is committed outside Japan and the “use or disclosure” is also committed outside Japan, law on infringement of trade secrets of that country should be applied rather than this amendment law. Therefore, Article 21(1)(v) providing for an offense of acquisition was excluded.

Meanwhile, when “acquisition” of a trade secret is committed outside Japan and “use or disclosure” is committed inside Japan—in other words, when a trade secret flows back—the conventional rule on the territorial reach would be observed, and because the place of use or disclosure is inside Japan, the Japanese UCPL would be applied.<sup>2)</sup>

An example case is where a recording medium containing a trade secret was stolen by an industrial spy while taking a business trip overseas, and the trade secret was disclosed to a competitor by the spy inside Japan.

Since the offense referred to in Article 24(1)(iv) became subject to penalties for offenses committed outside Japan, the definition, “for the purpose of using or disclosing it in a manner prescribed in the preceding item” in Article 21(1)(v) has also come to include the purpose to use or disclose a trade secret outside Japan. Therefore, an act of “acquiring” a trade secret by reproducing a record on a medium containing the trade secret inside Japan with the purpose of using or disclosing it outside Japan is subject to penalties as well.

### (ii) Object of the act

The object of the act is the trade secret that had been kept within Japan at the time of the fraudulent or other unlawful act or the control-violating act, or at the time the trade secret was disclosed by its holder.

In each type of the acts above, if the trade secret acquired or indicated had already been brought outside Japan, the acts would not be subject to penalties. That is, even if there is a fraudulent or other unlawful act or a control-violating act with respect to the trade secret that has already been brought outside Japan, the act is not punished. Also, the act will not be punished if the trade secret was indicated by its holder outside Japan. For example, when a factory manual (trade secret) developed at a place of business inside Japan was kept within Japan as well as at the factory of an overseas affiliated company of

the same company for the local employees, if the factory manual kept at the overseas factory is used by a competitor by a control-violating act, this act does not become subject to the criminal penalties under this law since the trade secret has been brought outside Japan, and the local law for protection of trade secrets will be applied.<sup>3)</sup>

Theoretically, if only considering the application of criminal penal provisions of the Japanese UCPL, companies could centrally manage all their trade secrets in Japan, and directly provide information to overseas companies via the Internet or other similar means, and provide such information to the employees of their overseas affiliate companies through training in Japan, though this would be rather inefficient.

However, considering practical efficiency, companies should give priority to manage their trade secrets that are not kept within Japan, that is, trade secrets outside Japan, in such a way that they will be protected by the local law for protection of trade secrets, similar to the case before this amendment.

Meanwhile, there is no need for the fraudulent or other unlawful act or the control-violating act to be committed inside Japan. The criterion for determination is only whether or not the trade secret is kept within Japan. As long as the trade secret is kept within Japan, the requirement under this paragraph can be met without a problem even in cases where it cannot be strictly defined that the act of infringement (acquisition) is committed inside Japan, such as when the trade secret is acquired by a person outside Japan by making an unauthorized access to the server that keeps the trade secret within Japan (a control-violating act).

### (iii) Use or disclosure outside Japan

All of the acts above are categorized as offenses of “use or disclosure” and their interpretation is not so different from that of offenses of “use or disclosure” committed inside Japan. Article 21(1)(v) is excluded from this paragraph because it is an offense of “acquisition” that is punished as an offense of preparation for Article 21(1)(iv) as mentioned above.

### 3.5 Introduction of criminal penalties for use of trade secrets outside Japan in violation of a protective order (Article 21(5))

#### Article 21

(5) The offense prescribed in Paragraph 1, Item 10 shall also apply to a person who committed it outside Japan.

#### (1) Significance of the introduction

Similar to making overseas use or disclosure of trade secrets kept within Japan subject to criminal penalties, acts of overseas use or disclosure of trade secrets that were disclosed under a court's protective order also became subject to criminal penalties.

#### (2) Typical example

A case where a manufacturing method allegedly developed in-house by Company B is Company B's trade secret in a lawsuit seeking an infringement of use of the trade secret filed by Company A against Company B:

When Company B produced documents on its development of the manufacturing method (Company B's trade secret) in response to the court's order to produce documents, it filed a motion for limitation of its inspection, etc., and filed a motion for a protective order with the court. The court issued a protective order against Employee X of Company A, and disclosed the documents to Employee X.

Employee X disclosed the manufacturing method (Company B's trade secret) thus acquired through disclosure to an employee of an overseas subsidiary, Company C, upon taking a business trip overseas.

#### (3) Requirements

An act where a person who received disclosure of a trade secret under a court's protective order uses the trade secret for the purpose other than conducting the proceedings or discloses it to a person other than “the person who was issued the protective order” “outside Japan” is subject to criminal penalties. Even for the purpose of conducting the proceedings, an act of disclosing the trade secret to an employee of not only another company, but also his/her own company, who is not “the person who was issued the protective order” is subject to criminal penalties.

#### [Supplementary note]

“The person who was issued the protective order” refers to a party, etc. (which means a party [in the case of a juridical person, its repre-

sentative], an agent [excluding a counsel or an assistant], an employee, or other worker of a party), a counsel, or an assistant who received disclosure of a trade secret under the court's protective order, and naturally does not include those who were not issued the protective order by the court even if they are employees of the same company.

### 3.6 Introduction of corporate penalties for the offenses of infringement of trade secrets (Article 22(1)(ii))

#### Article 22

(1) When a representative of a juridical person, or an agent, employee or any other worker of a juridical person or an individual has committed a violation prescribed in any of the provisions of the following items with regard to the business of said juridical person or said individual, not only the offender shall be punished, but also said juridical person shall be punished by the fine specified by the respective items, or said individual shall be punished by the fine prescribed in the relevant article:

(ii) Paragraph 1, Item 4, 5, 9, or 10 of the preceding article – a fine not more than 150 million yen

#### (1) Significance of the introduction

In this amendment, corporate penalties were also introduced for the offenses of infringement of trade secrets (a fine not more than 150 million yen). Offenses of infringement of trade secrets are categorized as offenses that assume competition between business operators, that is, “the purpose of unfair competition,” and the offenses are often committed for economic interests of a corporation rather than for personal interests. Therefore, introduction of corporate penalties for these offenses is significant in that they will serve as practical sanctions against the perpetrators.

The corporate penalties were introduced for offenses involving improper acquisition (Article 21(1)(iv) and (v)) and disclosure of a trade secret acquired by criminal disclosure (article 21(1)(ix)). They are not applied to offenses involving rightful acquisition (Article 21(1)(vi) to (viii)). This is because, when the perpetrator is an employee, etc., the text of the law would appear to impose penalties on the

company, which is also the trade secret holder and the victim (Article 21(1)(vi) and (vii)), and if the company of the new workplace is punished, it could have a withering effect on job transfer activities (Article 21(1)(vi) and (viii)).

With the introduction of corporate penalties, companies would be strongly required to fulfill their responsibility for appointing and supervising their employees. Since the company's negligence of its obligation of appointment and supervision would be presumed in corporate penalties, the company's side needs to produce evidence in order to be discharged as having performed the obligation. Corporate practitioners would be eager to know the extent to which the company needs to have performed its obligation of appointment and supervision in order to be discharged. However, court judgments on the UCPL have not accumulated at this point, so it would be difficult for companies to evaluate it. Thus, the Ministry of Economy, Trade and Industry revised the “Trade Secret Management Guidelines” it had issued. The revised guidelines include details on companies' compliance regarding trade secrets. According to the guidelines, “matters that serve as a measuring stick” for compliance are: (i) developing a trade secret management policy, etc. (basic policy, standards, rules, etc.); (ii) clarifying the presence of the persons responsible for trade secrets and their authorities; (iii) providing education for preventing infringement of trade secrets and fully informing the trade secret management policy, etc., company-wide; (iv) implementing daily monitoring; (v) implementing an internal audit; and (vi) developing a framework of measures to be taken in the event that any trade secret has been infringed. Companies would need to explore measures to fulfill their obligation of appointment and supervision by a process of trial an error, based on these matters indicated in the guidelines and future accumulation of relevant court judgments.

#### (2) Typical examples

(i) A case where Employee A improperly acquires technical information, which is a trade secret of Competitor B, by a fraudulent or other unlawful act in order to gain an edge in his company's new product development, and discloses or uses such technical information (Article 21(1)(iv))

(ii) A case where Employee A receives disclosure of technical information, which is a trade secret of a competitor, by inciting Employee C of the competitor through the mediation of Broker B, and uses such technical information for his company's new product development (Article 21(1)(ix))

### (3) Requirements

#### (i) Actor

The actor is a representative of a juridical person, or an agent, employee or any other worker of a juridical person or an individual.

A provision on corporate penalties is usually stipulated in such a way that it not only punishes the perpetrator who actually committed a violating act with regard to business, but also imposes a fine to the juridical person or the individual for which the perpetrator works. This article also takes such a style of provision. Here, an "individual" means a natural person who is a business proprietor, and an "agent, employee, or any other worker" means a person who provides labor under the control and supervision of the business proprietor.

#### (ii) "With regard to the business of said juridical person or said individual"

"With regard to the business" is limited to cases where the act of an employee, etc., was committed with regard to the business proprietor's business, and not when the act was committed personally, unrelated to the business.

#### (iii) Article 21(1)(iv), (v), (ix), or (x)

When an employee, etc., commits a trade-secret infringing offense of a category that falls under Article 21(1)(iv), (v), (ix) or (x), the act becomes subject to corporate penalties.

## 4. Closing remarks

The UCPL applies to a wide-ranging scope in protecting intellectual property, and it is closely related with business activities along with other intellectual property laws. The author hopes that this report will provide helpful material for consideration when applying these amendments in practice.

### Notes:

- 1) Temporary workers are not under an employment agreement with the business operator where they are dispatched to, but they are routinely under the supervision and instruction of the business operator and can easily access its trade secrets, so they are construed to be included in the employees of the business operator under the preceding item and this item.
- 2) See Intellectual Property Policy Committee, Industrial Structure Council, "*Fusei Kyōsō Bōshi Hō no minaoshi no hōkōsei ni tsuite*" (Direction of the review of the Unfair Competition Prevention Law) (January 2005): 22.
- 3) See *supra* note 2: 24.

### Reference:

- 1) Intellectual Property Policy Office, Ministry of Economy, Trade and Industry, *Chikujō kaisetsu: Fusei Kyōsō Bōshi Hō heisei 15 nen kaiseiban* (Article-by-article commentary on the Unfair Competition Prevention Law), Yuhikaku (2003).
- 2) Yamashita Takaya, Monya Takatoshi, Goya Yasunori, Asano Daisuke, Intellectual Property Policy Office, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry, "*Fusei Kyōsō Bōshi Hō No Ichibu Wo Kaisei Suru Hōritsu no gaiyō*" (Outline of the Law for Partially Amending the Unfair Competition Prevention Law), *NBL*, no. 762 (June 1, 2003).
- 3) Iida Satoshi, "*Tokushū: Dai 156 kai kokkai shuyō seiritsu hōristu—Fusei Kyōsō Bōshi Hō No Ichibu Wo Kaisei Suru Hōritsu*" (Feature: Major laws that passed the 156th session of the Diet— Law for Partially Amending the Unfair Competition Prevention Law), *Juristo*, no. 1251 (September 1, 2003)
- 4) Fair Trade Committee, Japan Intellectual Property Association, "*Fusei Kyōsō Bōshi Hō no kaisei ni tsuite*" (Amendment of the Unfair Competition Prevention Law), *Chizai kanri*, vol. 53, no. 11 (2003)
- 5) Intellectual Property Policy Committee, Industrial Structure Council, "*Fusei Kyōsō Bōshi Hō no minaoshi no hōkōsei ni tsuite*" (Direction of the review of the Unfair Competition Prevention Law) (January 2005).
- 6) Intellectual Property Policy Office, Ministry of Economy, Trade and Industry, "*Heisei 17 nen kaisei Fusei Kyōsō Bōshi Hō no gaiyō*" (Outline of the 2005 amendment of the Unfair Competition Prevention Law) (2005)
- 7) Aoyama Hirokazu, *Fusei Kyōsō Bōshi Hō* (Unfair Competition Prevention Law), Hougakushoin (March 2005)
- 8) Inoue Kenichi, *Fusei Kyōsō Bōshi Hō no kaisetsu* (Commentary on the Unfair Competition Prevention Law) *Hitotsubashi Shuppan* (December 2003)

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