

## **The Latest Amendments to the Japanese Unfair Competition Prevention Law**

**Yoshikazu Iwase, Wakako Sekiyama**

**Anderson Mori & Tomotsune**

Japan has recently been facing serious problems such as dissemination of technical information and know-how developed in Japan to entities outside of Japan, and an influx of counterfeit goods from foreign countries. The Ministry of Economy, Trade and Industry ("METI") moved to amend the Unfair Competition Prevention Law ("UCPL," Law No.47 of 1993) to address the above problems and the latest amendments came into effect on November 1, 2005 ("the 2005 Amendments").

The 2005 Amendments comprises of three parts, namely, (A) reinforcement of protection of trade secret, (B) protection against counterfeit goods, and (C) enhancement of penalties. This article summarizes the 2005 Amendments, and discusses its possible implications and impact.

### **A. Reinforcement of Protection of Trade Secret<sup>1</sup>**

#### **i) Present Loopholes in the UCPL**

Although the UCPL was amended in 2003 to include criminal sanctions in respect of trade secrets<sup>2</sup> (prior to that, only civil sanctions were available in respect of trade secrets, such as

---

<sup>1</sup> Defined by the UCPL (Article 2, paragraph 4) as meaning "technical or business information useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known". The aforesaid is an authorized translation by the Organization for Economic Co-operation and Development.

<sup>2</sup> The UCPL was amended in 2003 to allow for criminal sanctions for the following activities which are related to trade secrets:

**i) unfair acquisition of trade secrets (Article 21, paragraph 1 item (v))**

Procurement of a trade secret by obtaining the recording media containing the trade secret from the person controlling the trade secret, or making a copy of the recording media, by means of fraud or violation of control, for the purpose of unauthorized use or disclosure

**ii) unauthorized use and disclosure of trade secrets acquired unfairly (Article 21, paragraph 1 item (iv))**

Use or disclosure without authorization, trade secrets obtained by means of fraud or violation of control, for the purpose of unfair competition

**iii) unauthorized use and disclosure of trade secrets by the officer or the employee who is disclosed the trade secrets legally by the owner of the trade secret (and are in charge of the business relating to the secret) (Article 21, paragraph 1 item (vii))**

Use or disclosure without authorization, by an officer or an employee of the owner of the trade secrets who obtained/is disclosed the trade secrets from the owner, in breach of his duty to maintain the confidentiality of the trade secret (such duty arising through his fiduciary duty or employment), for the purpose of unfair competition

an injunction or compensation for loss), it became clear that there were still loopholes.

The UCPL, before the 2005 Amendments, did not cover the unauthorized use and disclosure of trade secrets:

- (a) by a former officer or an employee of a corporation, who gained the knowledge of the trade secret legally and such trade secret became an intangible part of his knowledge.

As the former officer or employee came into possession of the trade secret legally, usually through the course of his work when it was disclosed to him, there is no element of fraud or violation of control involved in procuring the trade secret. Accordingly, items (v) and (iv) of Article 21, paragraph 1 (set out in footnote 2) are not applicable for imposing any punishment.

It could also be that item (vii) of Article 21, paragraph 1 (set out in footnote 2) is also not applicable as the duty to maintain the confidentiality of the trade secret may no longer be applicable to the former officer or employee after he has left the job. If the employee's employment contract contains a confidentiality clause which continues for a certain period after the termination of the employment, and if such period has not expired, the employee's only course of action against the former employee would be for breach of contract i.e. no criminal sanctions will be available. If the period has expired, the employee will have no course of action against the former employee whether under contract or under the UCPL.

As item (iv) is not targeted at officers or employees, but at parties who obtained the trade secret outside of any employment relationship, item (iv) would not be applicable. Furthermore, item (iv) requires for the trade secret to be stored on a recording media for it to be invoked and where the trade secret has become an intangible part of the former officer or employee's knowledge and no recording media was obtained (fraudulently or not), item (iv) is not applicable.

- (b) outside of Japan, even if the trade secrets were illicitly obtained in Japan.

The location of disclosure is crucial. This is because the territorial jurisdiction of the UCPL (before the 2005 Amendments) and the Criminal Code of Japan is limited only to criminal activities taking place in Japan. Prior to the 2005 Amendment, therefore, where obtainment of a trade secret was not illegal, the subsequent

---

**iv) unauthorized use and disclosure of trade secrets which are obtained illegally by the person who is entrusted the trade secrets by its owner (Article 21, paragraph 1 item (vi))**

Procurement of a trade secret by obtaining the recording media which contains the trade secret, or making a copy of such media, by means of fraud, violation of control or some other act in breach of the duty owed by him to the owner of the trade secret to keep the trade secret confidential (misappropriation etc.), and using or disclosing the trade secret without authorization, for the purpose of unfair competition

disclosure that would have been punishable if it had taken place in Japan, was not punishable as long as disclosure was made outside of Japan. In the case of the Criminal Code, any extra-territorial jurisdiction has to be specifically provided for and this situation is not provided for. Therefore, for example, where an employee discloses trade secrets outside of Japan to a Korean competitor, such employee cannot be punished by criminal sanctions under the UCPL before the 2005 Amendments; if the employee had disclosed the trade secrets in Japan to a foreign competitor, the employee would be punishable under the UCPL even before the 2005 Amendments.

**ii) 2005 Amendments**

The 2005 Amendments included:

- (a) expanding the items set out in Article 21, paragraph 1 to include 2 new situations, as follows:

*Article 21, paragraph (1) item (viii)*

*A person who used to be an officer or an employee of the owner of the trade secrets, to whom the trade secrets were disclosed, who offered to disclose trade secrets in breach of his duty to maintain the confidentiality of the trade secret (such duty arising through his fiduciary duty or employment) or accepted an unlawful request to use or disclose of the trade secrets during office, and who uses or discloses the trade secret after leaving the office, for the purpose of unfair competition (excluding the persons who fall under in item (vi) ).*

*Article 21, paragraph (1) item (ix)*

*A person who obtains trade secrets by the disclosure to be punished for items (iv), (vi), (vii) and (viii), and uses or discloses the trade secret, for the purpose of unfair competition.*

- (b) increasing the penalties applicable, as set out in Article 21, paragraph (1).

*Article 21, paragraph (1)*

*Any person who falls under any of the following items shall be sentenced to imprisonment for a term not exceeding five years and/or fined an amount not exceeding ¥5,000,000 (approximately US\$50,000).*

Please see "C. Enhancement of Penalties" below for further details.

- (c) Extending the territory of the acts set out in Article 21 relating to trade secrets to acts committed outside of Japan, by the introduction of Article 21, paragraph (4).

*Article 21, paragraph (4)*

*Any crimes listed in paragraph (1), items (iv) and (vi) to (ix) shall be punished even if it is committed outside of Japan, as long as the trade secrets are managed/controlled in Japan at the time of fraud, violation of control or disclosure*

*by its owner.*

### **iii) Addressing the Loopholes**

*Penalizing the Former Officer or Employees who Makes Unauthorized Use or Discloses the Trade Secrets which have become an intangible part of his knowledge*

Although the freedom of change of jobs by the former officer or employee allowed for by the Japanese Constitution was considered, item (viii) of Article 21, paragraph 1 was introduced. Under item (viii), even if the former officer/employee had not committed any fraud or infringement of intellectual property right in obtaining the trade secret (and had in fact obtained the trade secret legally), nor did he remove any recording media containing the trade secret (but such trade secret had become an intangible part of this knowledge), if such former officer/employee uses without authorization or discloses the trade secrets to another party, such use or disclosure is now an illegal act punishable under the UCPL.

The Japanese Parliament decided to make unauthorized use or disclosure of such trade secrets which have formed an intangible part of a former officer/employee's knowledge a punishable act in view of fairness to the company which has spent time, effort and money in developing such trade secret. Furthermore, the Japanese Parliament was encouraged by the fact that many other countries already deem such an act a punishable act.

*Penalizing of Unauthorized Use or Disclosures of Trade Secrets outside of Japan*

With the globalization of business, even if the trade secret is disclosed or used outside of Japan without any authorization, the impact to the company in Japan who developed the trade secret can be rather big. The Japanese Parliament therefore introduced Article 21, paragraph (4). Parties disclosing trade secrets outside of Japan and parties outside of Japan using trade secrets developed in Japan without authorization can now be punished under the UCPL.

### **iv) Additional Implications and Impact of the 2005 Amendments**

*Penalizing the Company to who makes Unauthorized Use or is Disclosed the Trade Secret*

As the company who is disclosed the trade secret and/or makes unauthorized use of it ("Recipient Company") usually profits from such trade secret obtained (whether through the intangible knowledge of the officer/employee who is the former officer/employee of the company who developed the trade secret or otherwise), the common view is that the Recipient Company should be penalized as it is unfairly benefiting from the trade secrets.

On the other hand, it has been considered that by penalizing the Recipient Company, potential Recipient Companies would be hesitant in their employment of experienced employees for fear of unknowingly receiving trade secrets of another company, resulting in restricting the job opportunities for experienced employees.

The Japanese Parliament however decided to proceed with penalizing the Recipient Companies notwithstanding the above concern as theft of a company's trade secrets (whether

through intangible knowledge of a former officer/employee or otherwise) is widespread. The 2005 Amendments included a new provision in Article 22, paragraph (1) item (ii) to penalize the Recipient Company. However, only in the very serious cases would the Recipient Company be penalized. The limitations of the scope of Recipient Companies who would be penalized are contained in Article 22, paragraph (1) item (ii) and Article 21, paragraph (1) items (iv), (v) and (ix)).

The penalty for the Recipient Company found to be in breach of the UCPL is a fine not exceeding ¥150,000,000 (approximately US\$1,500,000).

### *Penalizing Parties Assisting in the Unlawful Transfer of the Trade Secret*

In some cases, there are more than one person involved in the chain of transferring the trade secret. It may not be that the trade secret flows directly from the company who developed the trade secret to the person who obtained the trade secret and then to the Recipient Party. The person who obtained the trade secret may pass it on to another person ("The Second Party") who then passes it on to the Recipient Party .

Prior to the 2005 Amendments, the Second Party, although a part of the theft of the trade secrets, is not always punishable. The Second Party is punishable only in limited circumstances: he has to (i) be involved in the theft of the trade secret from the planning stage and his level of involvement has to be such that he can be indicted as a co-principal of the crime, or (ii) be a direct instigator or provide direct assistance to obtain the trade secret such that he can be deemed as being an instigator or an assisting party.

In addition to the above paragraph (also prior to the 2005 Amendments), where there is yet another party who is involved in the theft by providing funds for the theft of the trade secret, where this funds provider delivers the funds to the Second Party, the funds provider cannot be punishable. However, where the funds provider delivers the funds directly to the first party who obtained the trade secrets from the company who developed them, the funds provider may be punished under the Criminal Code.

As a result of the introduction of the new Article 21, paragraph 1 item (ix), the Second Party and the funds provider are now more easily punishable.

## **B. Protection Against Counterfeit Goods and Pirated Productions**

Prior to the 2005 Amendments, whilst the UCPL addressed unauthorized use of famous marks (under Article 2, paragraph 1, item (ii)<sup>3</sup>) and imitation of the configuration of goods (under

---

<sup>3</sup> Article 2, Paragraph 1, item 2 (no amendment has been made by the 2005 Amendments): "As used in this Law, the term "unfair competition" shall mean any act under the following: The act of using a good or other indication as one's own which is identical with, or similar to, another person's famous goods or other indication, or the act of selling, distributing, displaying for the purpose of sale or distribution, exportation or importation."

Article 2, paragraph 1, item (iii)<sup>4</sup>), only civil sanctions were available i.e. injunctions and damages. As such activities of importing and selling of counterfeit goods are usually undertaken by the Japanese mafia (*yakuza*), it was often difficult to file suits or take other civil action against them and it became clear that criminal sanctions were also required.

The 2005 Amendments introduced criminal sanctions for these unlawful acts. The 2005 Amendment introduced criminal penalties for the activities prohibited under the above provisions, which include importation of goods involving unauthorized use of famous marks and imitation of the configuration of goods (Article 21, paragraph 1, items (ii) and (v)). To assist in the effectiveness of the 2005 Amendments, the Customs & Tariff Law was also been amended so that importation of goods that fall under Article 2, paragraph 1, items (ii) and (iii) of the UCPL can be suspended at any port manned by the Customs authority.<sup>5</sup> These amendments aim to effectively stop importation and therefore sales of counterfeit goods.

In addition, the 2005 Amendments have redefined the concepts of the following terms commonly used and set out below, in accordance with the past court decisions:

- “the configuration of goods” shall mean external and internal shape of goods and the design, color, gloss and texture accompanied thereto that can be recognized by customers in the course of ordinary use (Article 2, paragraph 4, as amended)
- “imitation” shall mean creation of goods with the shape substantially same as goods of others based on such goods (Article 2, paragraph 5, as amended)
- "configuration" as used within the parenthesis of Article 2, paragraph 1, item (iii), has been changed from “configuration which is commonly used for goods” to “configuration necessary for keeping the function of the goods” (Article 2, paragraph 1, item (iii), as amended)
- the 3 year period of protection provided under Article 2, paragraph 1, item (iii) shall commence upon the first sale in Japan instead of the first sale all over the world (Article 19, paragraph 1, item (v)(a))

### **C. Enhancement of the Penalties**

Prior to the 2005 Amendments, the penalty for violation of the UCPL was either

---

<sup>4</sup> Article 2, paragraph 1, item 3 (as amended by the 2005 Amendments):“As used in this Law, the term “unfair competition” shall mean any act under the following: The act of selling, distributing, displaying for the purpose of sale or distribution, exportation or importation of goods which imitate the configuration (excluding a configuration necessary for keeping the function of the goods as that of such other person) of another person’s goods.”

<sup>5</sup> The Customs authority suspends importation of goods on its own decision following an investigation at the Customs checkpoint initiated either at its own discretion or by a petition of a party.

imprisonment for no more than three years or a fine up to 3,000,000 yen (approximately US\$30,000). The 2005 Amendment has increased the maximum penalty to *five* years and *5,000,000 yen* (*approximately US\$50,000*), respectively. Please note that in addition to the increase in severity of the penalty, the 2005 Amendments provides that *both* imprisonment and a fine can be sentenced at the same time (Article 21, paragraph 1). However, the penalty for imitation of the configuration of goods of others is either imprisonment for no more than three years or a fine up to 3,000,000 yen, since the duration of the protection period for the configuration is 3 years (Article 21, paragraph 2).

## **Conclusion**

The 2005 Amendments enhance the intellectual property protection provided under the UCPL. To take advantage of such protection, generally, one does not have to maintain a registration with the Japan Patent Office or other governmental authorities. Not only Japanese companies but also companies from any other jurisdiction doing business in Japan may enjoy the protection provided under the new law. At the same time, companies doing business in Japan also have to be careful of the experienced employees hired and their knowledge used in the course of their employment, to avoid being in violation of the UCPL.

End