

## INTELLECTUAL PROPERTY RIGHTS IN JAPAN

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## **I. International Treaties**

Japan is a signatory to most of the international treaties concerning intellectual property rights. Accordingly, to the extent that the international treaties are relevant, general schemes for protection and prosecution of intellectual property rights under the intellectual property laws of Japan are similar to those of other signatory countries. International treaties concerning intellectual property rights to which Japan is a signatory include without limitation the following:

- (a) Trade Related Aspects of Intellectual Property Rights 1994
- (b) Paris Convention for the Protection of Industrial Property 1883
- (c) Patent Cooperation Treaty 1970
- (d) Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure 1997
- (e) International Convention for the Protection of New Varieties of Plants 1961
- (f) Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks 1991
- (g) Trademark Law Treaty 1994
- (h) Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks 1989
- (i) Berne Convention for the Protection of Literary and Artistic Works (Paris Act) 1971
- (j) Universal Copyright Convention 1971
- (k) Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations 1961
- (l) Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of Their Phonograms 1971
- (m) WIPO Copyright Treaty 1996
- (n) WIPO Performance and Phonograms Treaty 1996
- (o) Convention Establishing the World Intellectual Property Organization 1967

## **II. Intellectual Property Rights in Japan**

Intellectual property rights in Japan primarily consist of (1) patents, (2) utility model rights, (3) design rights, (4) trademark rights, (5) copyrights, (6) protection of trade secrets and (7) protection from unfair competition. The Japanese intellectual property laws with respect to each of the aforementioned intellectual property rights are explained briefly in this section.

1. Patents

a. Subject Matter

The Patent Law of Japan (the "Patent Law") offers protection for "inventions", which are defined in the Patent Law as highly creative technological ideas utilizing laws of nature. The scope of protection under the Patent Law extends to such fields as mechanical engineering, chemical engineering, electronics, biotechnology, computer programs and business methods.

In 1997 JPO issued "Guideline for Examination of Software-related Invention", which clarified that a computer readable data storage device incorporating software-related Invention may qualify for patent even if it is not combined with hardware. It was further clarified in the amended Patent Law which became effective as of September 1, 2002 that the invention of a computer program is included in the invention of product under the new Article 2 thereof. JPO grants patent for a business method utilizing computer process if it meets the criteria prescribed in the above-mentioned guideline.

JPO also granted patent for new variety of plant and microorganism and animals with particular characteristics. JPO recently amended its examination standard to grant patent for medical procedures within a limited scope.

b. Patentability

Patent is available only for such invention that (a) satisfies the standards of (i) industrial applicability, (ii) novelty and (iii) inventive step, and (b) is not identical to any invention described in any application that had been filed prior to the applications for the patent and disclosed in JPO's official Patent Gazette after the application for the patent.

The industrial applicability standard requires that the invention must be utilized and exploited in industrial activities. Any invention that may be utilized or exploited only in experimental or scientific activities does not qualify for patent.

The novelty standard requires that the invention must have novelty at the time of filing the patent application. An invention loses its novelty if it is (i) publicly known, (ii) publicly used or (iii) disclosed in a printed publication or available through electronic communications lines. However, if an invention loses its novelty because of (i) experiment, (ii) voluntary disclosure in a printed publication or through electronic communications lines or at a study meeting for presentation by the person holding the right to obtain the patent, (iii) any disclosure against the will of such person or (iv) international exhibition recognized under the Patent Law and the Paris Convention, the invention may qualify for patent for 6 months after the occurrence of such event.

The inventive step standard denies patentability if, at the time of filing the patent application, the invention could have easily been invented from prior art by a person having ordinary skill in the pertinent art. In this context, prior art means inventions that have lost novelty. Since the inventive step standard is relatively broad by itself, it is supplemented by number of judgements and JPO's decisions and guidelines. It is generally considered that the inventive step standard is not satisfied by any collection or combination of prior art, replacement of materials in prior art, or change or limitation of numbers, conditions or shapes in prior art that does not have any unexpected effect.

c. Prosecution

The inventor or any person who acquired the rights to patent the invention from the inventor or their successor may file a patent application for the invention. The Patent Law explicitly allows employers to acquire from their employees rights to patent the inventions, which are within the scope of the employers' businesses and have been created by the employees in relation to their duties to the employers, for reasonable consideration under the work rules or any other agreement with their employees. In many cases, accordingly, companies acquire their employees' rights to patent their inventions and apply for a patent in the company's name.

The Japan Patent Office ("JPO") examines applications for patents on a first-to-file basis. If more than one person files a patent application for the same invention, only the first-to-file applicant may patent the invention. Companies and individuals of a PCT signatory country may apply for Japanese patent in accordance with the PCT procedure. Further foreign companies or individuals that have filed a patent application in one or more Paris Convention signatory countries other than Japan may enjoy the benefit of the first filing date in any of the countries for 12 months from the date with regard to the application for Japanese patent.

All applications for Japanese patent are disclosed by JPO in its official Patent Gazette 18 months after the date of application, or earlier if requested by the applicant. Such disclosure is called "laid-open" (*Kokai*) and is made without substantial examination of the application. Once the application is disclosed, the applicant is entitled to conditional right to claim compensation (equivalent to the amount of ordinary license royalty) against a person who utilized the invention with regard to the utilization in the period that commences when the person becomes aware of the patent application and ends when the patent is granted.

JPO examines patentability of the invention claimed in an application only after a request for examination is filed with JPO. The request for examination may be filed by anyone within the period of 3 years (7 years with respect to applications filed by the end of September 2001) after the date of application. If the request for examination is not filed within the period, the application is deemed withdrawn.

Examination of patentability usually takes 1 to 2 years (22 months on the average in 2001). If JPO does not find any reason to reject patent application after the examination of patentability, it makes a

decision to grant a patent to the applicant. After the applicant pays the patent fee to JPO, the patent is registered with JPO and effectively granted to the applicant. If, on the other hand, JPO makes a decision to reject the application, the applicant may file an appeal demanding a trial before JPO within 30 days from the receipt of the decision. The applicant may appeal to the Tokyo High Court against an unfavorable decision rendered by JPO in such trial.

Upon registration of the patent, such registration is published in JPO's official Patent Gazette. Within 6 months from the date of such publication, any person may file an opposition with JPO on such grounds as lack of novelty or inventive step and existence of prior application. If the opposition is successful, the patent is cancelled. Further, even if the opposition is not successful, any person may file a motion for invalidation trial with JPO on any of the invalidation grounds that include (i) amendment or correction of specification, claim or drawing of the application in violation of the Patent Law, (ii) application filed by a foreigner who may not enjoy protection of Japanese patent (i.e. the applicant's country does not offer reciprocal protection of patent to Japanese), (iii) lack of patentability, (iv) violation of public policy; (v) unilateral application for jointly owned invention; (vi) existence of prior application claiming the same invention, (vii) violation of treaty, (viii) imperfect description in the claim or specification of the application, (ix) matters in the specification, claim or drawing of the application are not within the scope of the original application in the foreign language, (x) application filed by any person who is not the inventor and does not have the right to patent the invention, (xi) occurrence of (ii) or (vii) after the registration of the patent. In the invalidation trial, JPO holds hearings and renders decision, which may be challenged by an appeal to the Tokyo High Court.

d. Rights under Patent

The term of a patent is generally 20 years from the date of application.

Owner of Japanese patent enjoys an exclusive right to commercially exploit the patented invention in Japan. The Patent Law defines the term "exploit" as (i) with respect to invention of product (including program, etc. See 1.a. above), to produce, use, assign, etc. (which means assignment and lease and also includes the provision of services through electronic communication lines in the case of program, etc.) or import or to make proposal for assigning, etc. the subject products; (ii) with respect to invention of process, "to utilize the subject process"; and (iii) with respect to invention of process for manufacturing product, "to utilize the subject process, or use, assign, etc. or import or to make a proposal for assigning, etc. a product manufactured by utilizing the subject process".

The exclusive right of patent owner is subject to limitations prescribed in the Patent Law. For example, patent owner may not assert its right against use of patented invention for the purposes of experiment or scientific study. A person, who had commenced a business utilizing the patented invention or preparatory works for the business without any knowledge of the patent application at the time of filing the application, is entitled to non-exclusive license of the patent for the purpose of the business (Prior Use). If an employee of a company patented an invention, which falls within the scope of the company's

business and has been created by the employee in relation to his duties to the company, the company is entitled to a non-exclusive license of the patent (Shop Rights).

Patent owner may grant license to third parties. Patent license is generally classified into three categories. The first category is non-exclusive license (*tsujou-jisshiken*), under which the licensee is entitled to contractual non-exclusive right to exploit the patented invention. A non-exclusive license may be registered with JPO for the purpose of perfection. The second category is non-registered exclusive license (*dokusenteki-tsujou-jisshiken*), under which the licensee is entitled to contractual exclusive right to exploit the patented invention. A non-registered exclusive license may be registered with JPO as a non-exclusive license for the purpose of perfection. The third category is registered exclusive license (*senyou-jisshiken*), under which the licensee is entitled to absolute exclusive right to exploit the patented invention. Registered exclusive license becomes effective upon its registration with JPO. If the patent owner grants registered exclusive license, it may not exploit the patented invention unless the holder of the registered exclusive license grants back a license to the patent owner. Either the patent owner or the holder of registered exclusive license may bring a lawsuit against infringement of the patent in its own name.

A right holder may assign and/or pledge its patent and/or registered exclusive license by registering the assignment and/or establishment of pledge with JPO, as the case may be. Licensees of non-exclusive license and non-registered exclusive license may also assign and/or pledge their license by execution of contracts with the counter parties. Assignment of and establishment of pledge on non-exclusive license and non-registered exclusive license may be registered with JPO for the purpose of perfection.

e. Infringement

If a person commercially exploits another person's patent without the authorization of the patent owner, the exploiting person is liable for direct infringement of the patent.

In addition to direct infringement, the Patent Law provides for 4 types of acts that constitute indirect infringement; namely, (i) in the case of a patent for an invention of product, acts of manufacturing, assigning, etc, importing or offering for assignment, etc, in the course of trade, articles to be used exclusively for the manufacture of such products; (ii) in the case of a patent for an invention of product, acts of manufacturing, assigning etc., importing or offering for assignment, etc., in the course of trade, articles to be used for the manufacture of such product (except for the articles widely and generally distributed in Japan) which are essential for the solution facilitated by the invention with the knowledge that the invention is patented and that such articles are used for the practice of the invention; (iii) in the case of a patent for an invention of a process, acts of manufacturing, assigning, etc, importing or offering for assignment, etc, in the course of trade, articles to be used exclusively for the working of such process; and (iv) in the case of a patent for an invention of a process, acts of manufacturing, assigning, etc, importing or offering for assignment, etc, in the course of trade, articles to be used for the working of such

process (except for articles widely and generally distributed in Japan) which are essential for the solution facilitated by the invention with the knowledge that the invention is patented and that such articles are used for the practice of the invention.

In determining the infringement, the Japanese court applies “doctrine of equivalents”. The doctrine of equivalent is defined by the Supreme Court in *Ball Spline Case* (Supreme Court Decision: February 24, 1998). The Supreme Court ruled that even if the patented claim is different from the allegedly infringing product in certain portion, the product still infringes the patent if (i) the portion is not an essential part of the patented invention, (ii) the purpose of the invention may be achieved and the same function and results are obtained even if the portion is replaced by the corresponding element of the allegedly infringing product, (iii) the replacement would have been easily conceived by a person having ordinary skill in the pertinent art at the time that the allegedly infringing product is manufactured; (iv) the allegedly infringing product is not identical to any art public known at the time of filing for the patent and could not have easily been conceived by a person having ordinary skill in the pertinent art at the time of filing for the patent; and (v) there are no such special circumstances such as the allegedly infringing product falling within the category that was intentionally excluded from the scope of the claim in the course of prosecution. It is generally considered that the burden of proof with respect to the above (i), (ii) and (iii) are on the patent owner and the rest are on the allegedly infringing party.

f. Defense

Among various defenses available against a claim of patent infringement, patent invalidity is the most fundamental defense in patent litigation.

As discussed in the section for prosecution, a defendant in a patent litigation may assert invalidity of the subject patent filing the motion for invalidity trial with JPO. Until the Supreme Court rendered a judgement in *Kilby Patent Case*, it was generally considered that the motion for invalidity trial was the only measure available for the defendant to make an assertion of patent invalidity because JPO was exclusively responsible for determining patentability. However, even if the motion is filed, the court does not necessarily suspend the litigation and, accordingly, motion for invalidity trial cannot be a perfect measure to defend the claim of infringement in the patent litigation. In April 2000, the Supreme Court ruled in *Kilby Patent Case* that if the patent was apparently invalid any exercise of the patent would be an abuse of right and not be permissible (Supreme Court Decision: April 11, 2000). In the current practice, lower courts follow the ruling and even more broadly permit defendants to raise patent invalidity defenses in patent litigation.

g. Remedies

If a Japanese court finds patent infringement, the patent owner is entitled to (i) injunctive relief, (ii) damages and/or (iii) measures to restore the business reputation. The amount of damages are generally determined by the greatest of (i) loss of profits suffered by the patent owner, (ii) the amount of

profits that the infringing party obtained from the infringing activities or (iii) the ordinary license royalty for the infringing use of the patent.

Infringing party may be subject to criminal sanction under the Patent Law.

## 2. Utility Model Rights

The Utility Model Law of Japan (the "Utility Model Law") offers protection for "devices" which relate to the shape or construction of articles or a combination of articles. A "device" is defined as a creation of a technical idea utilizing a law of nature. Unlike patents, the creation need not be highly advanced for utility models. Accordingly, if an invention does not qualify for patent because of its level of creativity, it could still qualify for utility model.

Utility model rights are granted to devices that have not been claimed in prior application and satisfy (i) the industrial applicability standard, (ii) novelty standard and (iii) the inventive step standard. While the inventive step standard is more relaxed than that of the patent, other requirements are similar to those of the patent.

JPO registers utility model right without examining the requirements in the preceding paragraph. Once a utility model right is registered, anyone may file an invalidation action with JPO asserting that the subject device does not satisfy the requirements.

The term of a utility model right is 6 years from the date of application. Utility model right holder enjoys exclusive right to the device, which is substantially similar to the right under patent.

In order to exercise utility model right against infringement, the utility model right holder must (i) obtain from JPO a "utility model technological assessment report" opining that the subject device satisfies the aforementioned requirements and (ii) provide the infringing party with a warning letter accompanied by the report. Remedies for utility model rights infringement are similar to those for patent infringement.

## 3. Design Rights

Under the Design Law of Japan (the "Design Law"), which was revised extensively in 1999, a "design" is defined as the shape, pattern, or coloring, or the combination of these, in any article that produces an aesthetic impression on a viewer of the article. While such article includes a part of a product (e.g. a handle of a cup), it must be tangible and be capable of mass-production. A design must be specified by drawings attached to the application.

In order to enjoy the protection under the Design Law, a design must satisfy the requirements of (i) industrial applicability, (ii) novelty and (iii) creativity.

Prosecution procedures for a design registration are generally similar to those for a patent registration, except that JPO commences examination of an application without a request from the applicant and does not publish the application before the registration. An applicant may request, under certain restrictions on its design rights, that JPO will not publish the registered design up to 3 years from the registration.

A design right becomes effective upon its registration. The term of a design right is 15 years from the date of registration. The owner of a design right enjoys an exclusive right to commercially exploit the registered design in Japan. It may prohibit others from using the registered design as well as any design similar to it with regard to the subject article and may claim damages against such use.

#### 4. Trademark Rights

Under the Trademark Law of Japan (the "Trademark Law"), trademark rights do not come into existence by use of a trademark, rather they are granted by JPO to applicants for trademark registration upon completion of the trademark registration.

Trademark registration is generally available for those marks of letters, figures, symbols or three-dimensional shapes or any combination among them and/or any colors, which are (i) used with regard to goods by the person who commercially manufactures, certifies or assigns the goods, or (ii) used with regard to services by the person who provides or certifies the services. (References to a "trademark" below include service marks where applicable.)

Within 18 months from the date of application for trademark registration, JPO registers the trademark, if it finds that the trademark satisfies the requirements that it (i) is used or intended to be used by the applicant, (ii) is not similar to another person's registered trademark and is not to be used for goods or services designated in such other person's registration, (iii) does not fall within one of the categories prescribed in the Trademark Law that are considered to cause confusion as to the origin of the goods or services, to lack distinctiveness, or to be misdescriptive, and (iv) is not repugnant to public policy.

Foreign companies may apply for trademark registration in Japan. Since Japan is a signatory to the Paris Convention, a six-month priority period is available for applicants who have filed applications for the subject trademarks in one of the signatory countries. Further, since March 2000, JPO accepts international applications for trademark registration in accordance with the Madrid Protocol.

Upon registration of the trademark, it is published by JPO in its official Trademark Gazette. Within 2 months after the date of such publication, any person may file an opposition to the registration of trademark with JPO for its cancellation. If JPO decides to cancel the trademark registration, the applicant for the trademark registration may challenge the decision in an appeal to the Tokyo High Court. Even after the 2-month period, any person may file with JPO (i) a motion for invalidation trial with JPO based on such grounds that the trademark did not or does not satisfy certain requirements for the registration, and (ii) a

motion for cancellation based on the ground that the registered trademark has not been used for any 3-year period after the registration. JPO's decisions in the proceedings may be appealed to the Tokyo High Court.

The term of a trademark right is 10 years from the date of registration. It may be renewed any number of times by filing an application for renewal within the 6-month period before the expiry of the previous term.

The trademark right holder enjoys an exclusive right to use the registered trademark on the goods or services designated in the registration in Japan. If a third party uses the registered trademark or any similar trademark on the designated goods or services or any similar goods or services, the trademark right holder may prohibit such use by the third party.

The trademark rights are subject to certain limitations prescribed in the Trademark Law. For example, if a registered trademark had already been used by any party other than the trademark right holder not for the purpose of unfair competition and such use was widely recognized in certain area of Japan at the time of filing for the trademark registration, such user retains the right to continue the use of trademark within the area even after the registration of the trademark.

Trademark right holder may grant license to third parties. Trademark license is generally classified into three categories. The first category is non-exclusive license (*tsujou-shiyouken*), under which the licensee is entitled to contractual non-exclusive right to use the trademark. A non-exclusive license may be registered with JPO for the purpose of perfection. The second category is non-registered exclusive license (*dokusenteki-tsjou-shiyouken*), under which the licensee is entitled to contractual exclusive right to use the trademark. A non-registered exclusive license may be registered with JPO as a non-exclusive license for the purpose of perfection. The third category is registered exclusive license (*senyou-shiyouken*), under which the licensee is entitled absolute exclusive right to use the trademark. Registered exclusive license becomes effective upon its registration with JPO. If trademark right holder grants registered exclusive license, it may not use the trademark unless the holder of the registered exclusive license grants back a license to the trademark right holder. Either trademark right holder or the holder of registered exclusive license may bring a lawsuit against infringement of the trademark right in its own name.

A trademark right holder and/or registered exclusive license holder may assign and/or pledge its rights by registering the assignment and/or establishment of pledge with JPO. Licensees of non-exclusive license and non-registered exclusive license may also assign and/or pledge their license by execution of contracts with the counter parties. Assignment or/and establishment of pledge on non-exclusive license and non-registered exclusive license may be registered with JPO for the purpose of perfection.

Any unauthorized use by a third party of registered trademark or any trademark similar to the registered trademark with regard to the designated goods or services or any goods or services similar to

those constitutes an infringement of the trademark rights. Trademark right holder may claim injunctive relief and damages against infringement. The amount of damages are generally determined by the greatest of (i) loss of profits suffered by the trademark right holder, (ii) the amount of profits that the infringing party obtained from the infringing use or (iii) the ordinary license royalty for the infringing use of the trademark.

## 5. Copyrights

### a. Subject Matter

The Copyright Law of Japan (the "Copyright Law") extends its protection to "work", which is defined as a creative expression of thoughts or sentiment that falls within the literary, scientific, artistic or musical domains. The Copyright Law protects only expression of a work but any idea underlying in the work. The Copyright Law specifically confirms that computer program and database are included in such "work".

In order to qualify for the protection under the Copyright Law, a work must have creativity; however, it is generally understood that the required level of creativity is higher than those levels required in the U.S. and most of EU member states. The Copyright Law does not require any formalities such as publication or registration of a work for the protection.

Since Japan is a signatory to the Berne Convention, works created by nationals of any Berne Convention signatory countries and works first published in such countries qualify for the same protection as a work of Japanese national enjoys under the Copyright Law.

### b. Authorship

The authorship of a work generally belongs to the person who created the work. Unless otherwise agreed to between the employer and its employee, the authorship of a work which, on the initiative of the employer, is created by the employee in the course of his/her duties belongs to the employer, if, with regard to any work other than computer program, the work is published under the name of the employer.

### c. Moral Rights

The Copyright Law provides authors of copyrightable works with the moral rights, together with the copyrights as explained below, upon creation of the works.

Moral rights consist of (i) the right to decide publication of the work, (ii) the right to determine indication of the author's name and (iii) the right to preserve the integrity of the work. Moral Rights protect authors' personal interests and may not be assigned or forfeited by the authors. Although moral rights

expire upon the death of the author, the Copyright Law provides that “even after the death of the author, no person who offers or makes available a work to the public may commit an act which would be prejudicial to the moral rights of the author if he or she was alive”.

d. Copyrights (Commercial Rights)

Copyrights are granted to the author upon creation of the copyrightable works.

Copyrights consist of (i) the right to reproduce, (ii) right to perform, (iii) right to make presentation, (iv) right to publicly transmit, (v) right to recite, (vi) right to exhibit, (vii) right to distribute cinematographic works, (viii) right to transfer works (other than cinematographic works) or any reproductions (other than those of cinematographic works), (ix) right to lease, (x) right to translation, adapt, etc. (right to prepare derivative works including right to such derivative work so prepared). If a derivative work is created from an original work, both of the author of the original work and the author of the derivative work are entitled to the copyrights in the derivative work.

By virtue of the copyrights, copyright holders may enjoy exclusive right to commercially exploit the copyrightable works. Copyright holders may assign, license and/or pledge their copyrights.

Although the Copyright Law does not adopt a general fair use doctrine, copyrights are subject to limitations with respect to certain types of fair uses prescribed in the Copyright Law, which include without limitation reproduction for private use, reproduction in libraries, etc., quotation, reproduction in school textbooks, etc., reproduction in Braille, etc., performance for non-profit making purposes, reporting of current events, reproduction for judicial proceedings, etc., ephemeral recordings by broadcasting organizations, etc., exhibition of artistic work by the owner of the original and reproduction by the owner of a copy of computer program.

As a general rule, term of copyrights is for the life of the author plus 50 years. For works authored by a company, copyrights last for 50 years after publication (if not published within 50 years from the creation, the protection terminates upon expiry of the 50 year period from the creation).

Although the registration is not a condition for the acquisition, enjoyment or exercise of copyright, the Copyright Law provides for certain registration systems with regard to copyrights. For example, a work whose date of publication is registered is presumed to be published on the date registered. Assignment of a copyright is perfected upon registration.

Among other types of copyrights, the right to reproduce is the most fundamental right. It is generally considered by the Japanese court, that in order to establish an infringement of the right to reproduce, the copyright holder must evidence the infringing person's access to the copyrightable work and similarity between the copyrightable work and the reproduction.

If a copyright holder establishes an infringement of its copyrights, the copyright holder may claim injunctive relief and damages against the infringing person. The damages are generally determined by the greater of (i) the profits that the infringing person obtains from the infringing activities or (ii) the ordinary license fee that the infringing person should pay to the copyright holder if the infringing person used the copyrightable work under a license from the copyright holder.

e. Neighboring Rights

The Copyright Law provides for the neighboring rights, which offer protection (i) to performers with regard to recording, broadcasting, transmission, etc. of their performance, (ii) to producers of phonograms with regard to reproduction, transmission, lease, etc. of their phonograms, (iii) to broadcasting organizations with regard to re-broadcasting and wire diffusion of their broadcasts and (iv) to wire diffusion organizations with regard to broadcasting and re-diffusion by wire of their wire diffusions. The terms of the neighboring rights are generally 50 years from the date of fixation.

6. Protection of Trade Secrets

In Japan, trade secrets are protected under both of the Unfair Competition Prevention Law and the Civil Code of Japan.

The Unfair Competition Prevention Law defines trade secrets as technical or business information useful in commercial activities, such as manufacturing or marketing methods, which are kept secret and not publicly known, and designates trade secrets misappropriation as “unfair competition” comprehensively under six (6) categories. In many cases whether the subject information is “kept secret” by the holder is at issue and the court determines such issue taking into consideration whether the holder indicated secrecy of the information and effectively restricted access to the information. If a person misappropriates trade secrets of another person, the misappropriation constitutes an act of “unfair competition” and the owner of the trade secrets may claim injunctive relief and damages against the misappropriating person under the Law. The amount of damages is generally determined by the greater of (i) the profit that the misappropriating person obtains from the misappropriation or (ii) the ordinary license fee that the misappropriating person should pay to the owner if the misappropriating person used the trade secrets under a license from the owner.

In case law, while the Japanese court has determined certain customer lists and technological information as trade secrets granted protection under the Unfair Competition Prevention Law, it often denies protection under the Law with regard to the same categories of information on the ground that they were not kept secret by the owner. Although we have no precedents with respect to protection of source code of computer program that is widely distributed in the form of binary code, such source code could theoretically qualified as a trade secret and be protected under the law.

General tort provisions of the Japanese Civil Code also protect trade secrets from third party's misappropriation. Trade secret misappropriation may constitute a tort under the Code and, in such case, the owner of the trade secret may claim damages against the misappropriating person. Injunctive relief is not available under the Civil Code.

#### 7. Protection from Unfair Competition (Passing Off, etc.)

The Unfair Competition Prevention Law provides for fifteen (15) types of "unfair competition", which extend to (i) passing off, (ii) trade secret misappropriation (as discussed in the above), (iii) circumvention of effective technological measures (as required under the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty), (iv) unjustifiable acquisition and use of domain name similar to other's trade name, trademark or other indication, (v) false advertisement (vi) commercial disparagement, and (vii) unauthorized use of principal's trademark by an agent or ex-agent in Japan.

Among the categories above mentioned, passing off has more importance in practice than the other types. The Unfair Competition Prevention Law designates three types of passing off as "unfair competition".

The first type of "unfair competition" is the act of using an indication identical or similar to another person's "widely recognized" indication of goods or business that causes confusion with such person's goods or business. The term "widely recognized" means that the indication is recognized among certain class of customers of the goods or business in a certain geographical area. If a person uses another person's "widely recognized" indication and thereby causes such confusion among the customers in the geographical area, the owner of the indication may prohibit the person from using the indication in the relevant geographical area with respect to the relevant class of customers. The owner of the indication may also claim damages against the person.

The second type of "unfair competition" is the act of a person using an indication identical or similar to another person's "well-known" indication of goods or business as its own indication. The term "well-known" is generally considered to mean that the indication is recognized among a certain class of people nationwide. The owner of the indication may claim injunctive relief and damages against any unauthorized use of the indication by a third party.

Owners of famous brand names and characters defeat counterfeit businesses and diluting activities by asserting that they fall under the first and second types of "unfair competition".

The third type of "unfair competition" is the act of assigning, delivering, exhibiting, exporting or importing goods imitating the form (excluding ordinary form for such type of goods) of another person's goods (excluding goods which has been sold for more than three years in any country). In the precedents, the Japanese court recognized imitation only in such cases where the court found significant similarity between the imitated goods (slavish imitation) and the imitating goods and access to the imitated goods by

the infringer. The person who commercialized the imitated goods may seek injunctive relief and damages against the imitating person.

For the three (3) types of “unfair competition” concerning passing off, the Unfair Competition Prevention Law provides the remedies of (i) injunctive relief, (ii) damages and (iii) measures to restore the business reputation. The amount of damages is generally determined by the greater of (i) the profit that the person who conducted the “unfair competition” obtained from the “unfair competition” or (ii) ordinary license fee that would be paid by the person who conducted the “unfair competition” if it conducted the “unfair competition” under a license from the claimant.

#### 8. Other Laws

Japan has the Plant Variety Protection Law and the Law Concerning the Circuit Layout of a Semiconductor Integrated Circuit.

### **III. Interaction with Competition Law**

#### 1. Overview of the Japanese Anti-Monopoly Law

The Law Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade of Japan (the “Anti-Monopoly Law”) primarily prohibits (i) monopolization, (2) unreasonable restraint of trade and (iii) unfair trade practice. In broadest terms, the concept of monopolization corresponds to that of Section 2 of the Sherman Law and Article 82 of the EEC Treaty (monopolization) and the concept of unreasonable restraint of trade corresponds to that of the Section 1 of the Sherman Law and Article 81 of the EEC Treaty (cartel). What makes the Anti-Monopoly Law substantially different from the competition laws in the United States and EU is the prohibition of unfair trade practice, which in many cases overlaps with prohibition of the monopolization and/or unreasonable restraint of trade.

The Japan Fair Trade Commission (“JFTC”) designates sixteen (16) unfair trade practices, which may be classified into three categories. The first category consists of such conduct restraining free competition as concerted and unilateral refusal to deal, discriminatory pricing, predatory pricing, tying, non-price restraint and resale price maintenance. The second category consists of conduct that is considered unfair by their nature, for example, deceptive customer inducement and interference with competitor’s transaction. The third category is abuse of dominant bargaining position.

With respect to violation of the Anti-Monopoly Law by any of monopolization, unreasonable restraint of trade and unfair trade practices, JFTC may make a recommendation and, if the recommendation is not accepted and a violation is established at the hearing held by JFTC, JFTC may order the cessation of the violating conduct. JFTC may also impose a surcharge on any person engaged in a cartel in violation of the Anti-Monopoly Law. These administrative actions by JFTC may be challenged before the Tokyo High Court and the Supreme Court. While criminal sanction may theoretically be

imposed on monopolization and unreasonable restraint of trade, JFTC has generally filed criminal accusations with the Public Prosecutor General only with regard to cartel. Violation of the Anti-Monopoly Law constitutes a basis for private action seeking damages under the Civil Code of Japan; however, injunctive relief under the Anti-Monopoly Law is available only with regard to unfair trade practice. The Japanese court does not recognize the patent misuse doctrine or the copyright misuse doctrine, which bars any exercise of such rights by a person violating the Anti-Monopoly Law.

With regard to international aspects of the application of the Anti-Monopoly Law, it explicitly prohibits execution of a cross-border agreement that falls within unreasonable restraint of trade or unfair trade practice. JFTC announced that it applies the Anti-Monopoly Law to international cartels that have anti-competitive effect in the Japanese market.

## 2. Application of the Anti-Monopoly Law to Exercise of Intellectual Property Rights

Although Article 21 of the Anti-Monopoly Law states that the Anti-Monopoly Law shall not apply to any act recognizable as an exercise of intellectual property rights, the Japanese court as well as JFTC considers that the Anti-Monopoly Law applies to any exercise of intellectual property rights if it violates the Anti-Monopoly Law.

The leading case that applies the Anti-Monopoly Law to exercise of intellectual property rights is *Pachinko (Japanese vertical pinball game) Machine Case* (JFTC Recommendation Decision: August 6, 1997). In this case, 10 Pachinko machine manufacturers, which owned most of the patents concerning Pachinko machine and manufactured approximately 90% of Pachinko machines in the Japanese market, formed a patent pool joint venture and restrained themselves and the joint venture from licensing the patents to any entity other than 19 members of the joint venture (including the 10 Pachinko machine manufacturers). JFTC found monopolization by the 10 Pachinko machine manufacturers and the joint venture and rendered a decision to terminate the practice. While JFTC found monopolization in this case, the case may also be understood as an example of a cartel and concerted refusal to deal.

JFTC rendered a recommendation decision to terminate tying of Word and Excel by Microsoft in 1998 (JFTC Recommendation Decision: December 14, 1998) and issued a warning to a game software manufacturer, which was granted by the Professional Baseball Organization of Japan an exclusive license to use the names of professional baseball players in computer baseball games, with respect to its unilateral refusal in granting sublicense to other game software manufacturers.

## 3. JFTC Guideline on Patent and Know-how License Agreement

In 1999, JFTC published the amended and restated Guideline for Patent and Know-how License Agreement (the "Guideline").

The Guideline gives a comprehensive view on the method and the scope of applying the Anti-Monopoly Law to patent or know-how license agreements. It illustrates with examples JFTC's views on how it applies the Anti-Monopoly Law to patent and know-how license agreement from the perspective of unreasonable restraint of trade and monopolization. Further, from the perspective of unfair trade practices, it explains, for each typical restrictions on licensee appearing in patent and know-how license agreements, whether such restrictions (i) in principle fall within unfair trade practices, (ii) in certain circumstances fall within unfair trade practice or (iii) do not, in principle, fall within unfair trade practices.

Under the Guideline, while resale price maintenance, continuing royalty payment after expiration of patent and assign back and grant back exclusive license of improvement are, among other restrictions, generally considered illegal per se, rule of reason applies to many of the restrictions including tying, grant back non-exclusive license of improvement, restrictions of material suppliers and customers.

#### **IV. Dispute Resolution**

##### **1. Litigation**

With regard to the intellectual property rights discussed above, the right holder may bring two types of lawsuits, either independently or simultaneously: a primary suit (*honso*) seeking both permanent injunction and damages and a petition for preliminary injunction (*karishobun*) seeking preliminary injunction only.

Except for the limited cases where the right holder evidences a present and immediate danger of great losses or damages, the court usually examines preliminary injunction cases and the corresponding primary suit at the same hearings and, if it finds any infringement, it usually grants preliminary injunction subject to the right holder depositing a bond for a certain amount and commences examination on the amount of damages in the primary suit proceedings. No juries are involved in any stage of court proceedings. The primary suit usually takes 1 to 2 years to come to a conclusion.

The Japanese Court has a strong tendency to rely upon written documentation submitted by the parties, while allowing parties to examine witnesses at hearings. Since the Code of Civil Procedure of Japan does not provide strong discovery measures as in the United States, a party may have difficulties in causing other parties to produce evidence in their possession for the court and in many cases can only produce evidence in its possession.

The lawsuit is usually first brought before a district court, especially the Tokyo and Osaka District Courts which have special divisions for IP matters. If the decision rendered in a primary suit before the district court is not satisfactory, it is possible to file an appeal before a high court. The proceedings before a high court are basically a continuation of what has taken place before at the district court. An appeal from the high court lies with the Supreme Court. However, the grounds for which the Supreme Court will hear a case are strictly limited to such grounds as a violation of the Constitution or an

inconsistency with the precedents of the Supreme Court.

2. Arbitration

If the parties to a dispute concerning intellectual property rights agree, the dispute may be brought before any of Japan Commercial Arbitration Association, International Chamber of Commerce Japan or Japan Intellectual Property Arbitration Center. Each of them has its own arbitration rules and fee schedules.

V. Outline of the Regulation of the Telecommunications Industry

The Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) regulates the Japanese telecommunications industry primarily under the Telecommunications Business Law (TBL). The TBL authorizes the MPHPT to regulate two types of telecommunications companies, Type I Carriers and Type II Carriers. Type I Carriers provide telecommunications services by establishing their own telecommunications circuit facilities. Type II Carriers are telecommunications carriers other than Type I Carriers. Type II Carriers may engage in the businesses of telecommunications circuit resale and the provision of Internet services. Type II Carriers provide telecommunications services to customers by using the telecommunications facilities of Type I Carriers, typically NTT East, NTT West or NTT Communications. Thus, Type II Carriers can potentially be customers of Type I Carriers as well as their competitors. Type II Carriers are subdivided into Special Type II Carriers and General Type II Carriers. Special Type II Carriers are limited to Type II Carriers which provide telecommunications facilities designed for communications between Japan and foreign points or provide voice telecommunication services to numerous unspecified members of the public through interconnections of public switched networks and leased circuits at each end. General Type II Carriers are Type II Carriers other than Special Type II Carriers. In June 2001, the TBL was amended to allow Type I Carriers and Special Type II Carriers to engage in wholesale telecommunications services for other Type I Carriers and Type II Carriers with prior notification to the MPHPT.

The following table summarizes some of the major regulatory requirements applicable to Type I and Type II Carriers:

	<b><u>Type I Carriers</u></b>	<b><u>Type II Carriers</u></b>	
		<b><u>Special Type II</u></b>	<b><u>General Type II</u></b>
Government Regulation:			
a. Start-up of services	Permission from MPHPT required	Registration with MPHPT required	Notification to MPHPT required
b. Rates and charges	Notification to MPHPT required	Notification to MPHPT required	Unregulated

This current regulatory structure of TBL is being reviewed in the 2003 Diet session and may be drastically changed effective in 2004.

## VI. Cases and Topics in the Recent Years

Followings are important cases and topics in the recent years that are not discussed in the preceding sections.

### 1. Parallel Importation

The Supreme Court of Japan rendered a judgement in *BBS Case* (Supreme Court Decision: July 1, 1998) with respect to parallel importation of patented products. The court held that when a holder of a Japanese patent assigned a product embodying the invention covered by that patent outside of Japan, the holder of that patent can no longer seek injunction and/or damages, etc. based on that patent with respect to that product, except where (i) with regard to a direct assignee, the patent holder and the assignee of that product agree to exclude Japan from the territory for resale or use of the product or (ii) with regard to indirect assignee, in addition to the agreement between the patent holder and the direct assignee as stated in (i) above, that such purport is clearly indicated on that product.

Under the established precedents for the Trademark Law, parallel importation from a foreign country to Japan of products bearing a trademark registered in Japan does not infringe the trademark rights in Japan if (i) the trademark has been affixed by the trademark right holder in the foreign country or its licensee, (ii) the trademark right holder in the foreign country and the trademark right holder in Japan are identical or may be deemed the same entity in substance, and (iii) the trademark right holder in Japan may directly or indirectly control the quality of the parallel imported products and therefore the quality is not different in substance from that of the products of the trademark right holder in Japan.

The Copyright Law was amended in 1999 to adopt "international exhaustion doctrine" and clearly legalize parallel importation of copyrightable products.

Unfair restraint of parallel importation is considered as "unfair trade practice" and violates the Anti-Monopoly Law.

### 2. Domain Name

Since April 1, 2002, JP domain names and C O.JP domain names are distributed to the applicants by Japan Registry Service Co., Ltd. (JPRS). While a foreign corporation may obtain JP domain names if it has a postal address in Japan, CO.JP domain names are available only for corporations incorporated under the laws of Japan. JP domain names and CO.JP domain names are assignable. Any dispute concerning JP domain name or CO.JP domain name, typically so called "Cyber Squatting" may be brought before the Japanese court and/or Japan Intellectual Property Arbitration Center.

### 3. ISP Liability Law

The Law Concerning Limitation of Damages to Telecommunications Service Provider and Disclosure of Sender Information” (the “ISP Liability Law”) came into effect on May 27, 2002. Under the ISP Liability Law Internet service providers are not generally liable for any damages caused by any infringement caused by transmission of information via the Internet unless (a)(i) it is aware of the infringement or (ii) it is aware of the information and should have known of the infringement and (b) it could technically prevent the transmission of information. Any person whose right is allegedly infringed by transmission of information in the Internet may request under the ISP Liability Law that the Internet service provider disclose information to specify the person who transmitted the information, if the right of the requesting person is obviously infringed by the transmission and the requesting person has legitimate reason to be entitled to the disclosure (e.g. necessity of the disclosure for seeking damages).

### 4. Copyright Management Business Law

As of October 1, 2001, the Law on Intermediary Business Concerning Copyright was replaced by the newly enacted Law on Management Business of Copyright and Neighboring Rights (the Copyright Management Business Law”). The Copyright Management Business Law introduces a registration system for the management businesses of copyrights and neighboring rights and requires them to report to Agency for Cultural Affairs and publish their rules on management consignment contracts and amount of royalties. Under the Copyright Management Business Law, copyright management businesses such as JASRAC (for musical works) and Japan Reprographic Right Center (for literary works, etc.) license the copyrights and neighboring rights and collect royalties on behalf of the holders of copyrights and neighboring rights.

### 5. Upcoming Legislation

The following topics are being discussed actively at the legislative and administrative levels and new legislation will likely be enacted in a couple of years:

- Protection of personal information;
- Amendment of Telecommunications Business Law;
- Protection of licensee from bankruptcy of licensor;
- Consideration for assignment of employee’s right to patent to employer; and
- Commercial trust for intellectual property rights

## VII. Useful English Website

Japan Patent Office

<http://www.jpo.go.jp/index.htm>

Japan Patent Attorneys Association

<http://www.jpaa.or.jp/english/index.html>

Agency for Cultural Affairs

<http://www.bunka.go.jp/english/English2002/5.html>

Copyright Research and Information Center

[http://www.cric.or.jp/cric\\_e/index.html](http://www.cric.or.jp/cric_e/index.html)

Software Information Center

<http://www.softic.or.jp/>

JASRAC

<http://www.jasrac.or.jp/ejhp/index.htm>

Japan Registry Service

<http://jprs.jp/en/>

Japan Fair Trade Commission

[http://www.jftc.go.jp/e-page/f\\_home.htm](http://www.jftc.go.jp/e-page/f_home.htm)

Supreme Court of Japan

<http://www.courts.go.jp/english/ehome.htm>

For Further information on this topic, please contact Eiichi Fukushima or Takashi Michishita at Asahi Koma Law Offices by telephone (+81 2 2505 0003) or by fax (+81 3 3505 1333) or by email ([ef@alo.jp](mailto:ef@alo.jp), [tm@alo.jp](mailto:tm@alo.jp)). The Asahi Koma website can be accessed at [www.alo.jp](http://www.alo.jp).