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# RECENT AMENDMENT TO THE UNFAIR COMPETITION PREVENTION LAW FOR THE PROTECTION OF TRADE SECRETS

Kazuko Matsuo\*

## I. INTRODUCTION

On June 29, 1990, an amendment to the Japanese Unfair Competition Prevention Law was promulgated to include measures for the protection of "technical or business information" (hereinafter referred to as "trade secrets").<sup>1</sup> This new law was passed in recognition of the increasing importance of trade secrets in industry and the recent strong international demand for harmonization of intellectual property laws. In other words, "trade secrets" have now been given recognition under the law.

For the first time, a trade secret owner is entitled to injunctive relief against third parties with whom he does not have any contractual relationship. However, the amended law does not recognize trade secrets themselves as constituting an enforceable right against third parties; instead, it protects trade secret owners only against unfair acts of acquiring, using, or disclosing their trade secrets, as defined in the new law. The "unfairness" requirement of the acts varies according to the categories of unfair acts. "Unfair" means, "unfair purpose," "with knowledge of an antecedent unfair act" or "without knowledge of an intervening unfair act due to gross negligence." Other unfairness criteria were carefully drafted into the law.<sup>2</sup>

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1. Fusei Kyōsō Bōshi Hō (Unfair Competition Prevention Law), Law No. 14 of 1934, Art. 1 (3).

2. Fusei Kyōsō Bōshi Hō (Unfair Competition Prevention Law), Law No. 14 of 1934.

Consideration was given to avoid giving excessive protection to trade secrets, fostering abuse of the right to sue under the trade secrets law, or aiding unreasonable interference with transactions involving trade secrets. Accordingly, the right to request an injunction ceases to exist by prescription if the right is not exercised within a certain period of time, a concept which was not part of the law before the amendment.

This amendment is important not only in the ways stated above, but also in the sense that it will inevitably change Japanese business practices concerning trade secrets.

## II. HISTORY OF AMENDMENT

This amendment is unique and noteworthy in the history of the Unfair Competition Prevention Law because heated discussions and debates were conducted and relevant laws and court decisions, not only in Japan but also in foreign countries, were thoroughly examined and taken into consideration in preparing the amendment; even more preparation time ought to have been taken if international pressure had not been so strong. To prepare the amendment, after preliminary study, a special Committee was formally organized with representatives of industry, workers, scholars, judicial officers, and lawyers within the Industrial Structure Council of the Ministry of International Trade and Industry (MITI) and began work on October 12, 1989. On January 19, 1990, an inquiry paper was sent to various organizations to invite opinions. These organizations included Keidanren (the Federation of Economic Organizations), the Japan Federation of Bar Associations, the Japan Federation of Trade Unions, the Japan Patent Association, and other Japanese business organizations, as well as the American Chamber of Commerce in Japan, amounting to a total of 150 organizations. Then on March 16, 1990 the proposal was completed. The bill was brought before the 118th session of the Diet, which gave final approval on June 22, 1990, and was published on June 29, 1990 as Law No. 66. The date when the law will take effect has not yet been determined, although it must be within one year from the date of publication of the law. At present, MITI and other related organizations have been holding meetings throughout Japan to explain the new trade secrets law.<sup>3</sup>

In contrast with the procedure followed in drafting the new amendment, from the first enactment of the Unfair Competition Prevention Law in 1934 to subsequent amendments in 1938, 1950, 1953, 1965, and 1975, the law was changed only to conform to the minimum requirements of international conventions or demands.

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3. MITI is expected to publish the handbook explaining the new trade secrets law in October or November of 1990.

In other words, the text of the law and subsequent amendments reflected the then effective provisions of the Paris Convention for the Protection of Industrial Property of March 20, 1883, and its revisions at The Hague, London, Lisbon, and Stockholm, the Arrangement of Madrid Concerning the Repression of False or Deceptive Indication of Source on Goods in 1911, as revised at The Hague, London, Lisbon, and Stockholm, and the Directions given by the General Headquarters of the Supreme Commander for Allied Powers after World War II. Hence, unfair acts to be prohibited under the present law were limited only to six types: (1) acts causing confusion as to the origin of goods, (2) acts causing confusion as to business establishment or activities, (3) false indication of the place of origin of goods, (4) misleading indication of the place of origin of goods, (5) misleading indication of the nature, quality, etc., of goods and (6) disparagement of competitors.<sup>4</sup> In this connection, it should be added that more thorough amendments of the law should be considered in the near future.<sup>5</sup>

Before the amendment, there was no statute which directly protected trade secrets, although they were protected to some extent under general laws such as the Civil Code, Commercial Code, and Penal Code.<sup>6</sup> This protection included civil remedies, such as damages and injunctions, which were available between contractual parties, such as employers against employees and licensors against licensees if a contract not to disclose know-how was concluded and enforceable under the Civil Code, and between companies and their directors and other officers, since under the Commercial Code directors and other officers have a duty not to compete with their company<sup>7</sup> and have the duty of being a diligent manager loyal to their company.<sup>8</sup> However, for third parties who are not bound by

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4. Fusei Kyōsō Bōshi Hō (Unfair Competition Prevention Law), Law No. 14 of 1934, Art. 1 (1).

5. In July 1989, the Japan Federation of Bar Associations submitted "An Outline of Amendment of Unfair Competition Prevention Law" to the Minister of MITI and other relevant authorities. The outline proposed amending the entire law.

The Japan Association of Industrial Property has studied the fundamental problems of the law since its annual meeting in 1985. Recently, MITI and the Industrial Property Institute also started to research into amendment of the law covering necessity, direction, the point at issue of the amendment including comparative studies. The author is a member of this research committee.

6. To date, two dozen civil and criminal court decisions have been reported, and the criminal laws have been more effective in regulating trade secrets cases than the civil laws.

7. Shōhō (Commercial Code), Law No. 48 of 1889, Art. 264.

8. Shōhō, *supra* note 5, Articles 254, 254 254(3). Article 254-3 provides that "the directors shall be obliged to obey any law or ordinance and the articles of incorporation as well as resolutions adopted at a general meeting and to perform their duties faithfully on behalf of the company." Article 254(3) provides that "the relations between the company and the directors shall be governed by the provisions relating to mandates."

Regarding mandates, Article 644 of the Civil Code provides that "[a] mandatory is

contractual obligations or the like, damages were available under the general tort provisions of the Civil Code,<sup>9</sup> but injunctive relief was definitely denied even if the disclosure or acquisition of a trade secret was clearly unlawful because an injunction was, in principle, allowed only where the law expressly provided for such relief, as in the case of patents, trademarks, real estate matters, etc. Regarding criminal sanctions, the crimes of larceny, embezzlement, breach of trust, and offenses relating to ill-gotten goods have been the most typical categories of offenses applicable to trade secrets cases, and courts have taken a rather positive attitude towards the protection of trade secrets in these cases. However, the relevant provisions did not originally cover intangible objects but covered only "property," and therefore theoretical problems prevented a fully effective solution.

In the process of drafting the present amendment, the theory for the protection of trade secrets was fully discussed, particularly in connection with patent rights, and although the property value of trade secrets was well recognized, they were not considered to give rise to a property right enforceable against third parties. From this viewpoint, an approach was made to prevent "unfair acts" related to trade secrets.

Careful consideration was given to the need not to harm small-to-medium sized enterprises (which have not developed advanced business methods to protect valuable trade secrets), not to unreasonably hinder employees in changing jobs (which has become more frequent in Japan recently), and not to obstruct the sharing and trading of business information in such a high-technology society. Conformity with other laws, such as the Civil Code and Patent Law, was taken into consideration, especially concerning intention, negligence, other subjective requirements, and the scope of protection granted under the Patent Law.

### III. MAIN FEATURES OF THE PROTECTION OF TRADE SECRETS

#### 1. Trade Secrets Which Are Protected.

An entrepreneur who possesses a manufacturing method, marketing method or other technical or business information useful in commercial activity which has been administered as a secret and has not been publicly known (hereinafter referred to as a "trade secret") (hereinafter referred to as the "holder"), when he

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bound to manage the affairs entrusted to him with the care of a good manager in accordance with the tenor of the mandate."

9. Minpō (Civil Code), Law No. 89 of 1896, Art. 709. Article 709 provides that "a person who violates intentionally or negligently the right of another is bound to make compensation for damages arising therefrom."

finds a person who is doing or may do any act that falls under any one of the following items (hereinafter referred to as an "unfair act relating to a trade secret"), and where his business interest is likely to be harmed by such unfair act relating to a trade secret, may request cessation or prevention of such unfair act relating to a trade secret.<sup>10</sup>

A trade secret which can be protected under the amended law is defined as "a manufacturing method, marketing method or other technical or business information useful in commercial activity which has been administered as a secret and has not been publicly known." To sum up, to be protected a trade secret must satisfy four requirements; it must be: (a) technical or business information, (b) useful in commercial activity, (c) administered as a secret, and (d) not publicly known.

Regarding the subject matter of trade secrets, item (a) above, almost any information may be claimed as a trade secret, as long as it falls within the scope of technical or business information, and it will probably be easy to say that it falls within that scope. However, the second requirement (b), "being useful in commercial activity," does not seem to work positively, but instead works negatively to exclude trade secrets which are not worth protecting under the legal system because of a lack of social necessity, social benefit, or justice. Accordingly, the drafters of the amendment explained that scandalous information or information concerning tax evasion or non-conformity with the laws to prevent environmental pollution cannot be protected as a "useful" trade secret whether it is economically important or not. On the other hand, the drafters also stated that "being useful in commercial activity" is identical with "having economic value." Thus, in the future, this requirement (b) will invite discussion. It may be added that "negative" information (which is information concerning failed experiments or development) will be included in this concept.

The third requirement of (c) "being administered as a secret" was the subject of lively discussion in the Committee. This requirement was designed to conform the protection of trade secrets with that of patent rights and other absolute rights which have a legal means of giving public notice of the rights. Comparative law was also taken into consideration, and the requirement of reasonable efforts to maintain secrecy under the Uniform Trade Secret Act in the U.S.A. and other foreign laws was persuasive. However, the drafters wanted this requirement (c) to be uniquely worded under Japanese law. But because of this wording many objections were raised

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10. Fusei Kyōsō Bōshi Hō (Unfair Competition Prevention Law), *supra*, Art. 1 (3). The entire provision of the law is translated by the author and is available in the Appendix. No official translation is available.

in the Committee due to the ambiguity of the term "being administered."

It is clear that the means of administration used will vary according to the importance of the trade secret and size of the enterprise, according to whether it is a tangible or intangible trade secret, according to whether a trade secret is in an early stage or closer to the stage of completion, and according to other various characteristics, situations, or circumstances. Some argued that if this requirement were leniently interpreted, too much business information would be protected, which would harm business activity. On the other hand, if the requirement were strictly interpreted, only huge American enterprises with experience in maintaining trade secrets would be able to obtain protection, and they would attack Japanese companies, many of which still have not developed a well-organized system of maintaining their valuable trade information in secrecy.

At the end of the lengthy discussion, it was agreed that this requirement means that administering a trade secret's "secrecy" must not merely include keeping it subjectively secret, but also objectively secret, so that a trade secret is maintained in a way which include some means, visual or otherwise, of giving clear notice of the secret nature of the information to persons who have access to the trade secret. In this connection, giving proof of access restrictions to trade secrets and maintaining a location within an enterprise where trade secrets are maintained will be fundamentally important in meeting this requirement.

Requirement (d) relating to "publicly known" is self-explanatory, and various discussions from opinions in patent cases will probably be applied here.

## 2. Unfair Acts Concerning Trade Secrets

The law defines unfair acts relating to trade secrets which are to be regulated by the law in Article 1 (3)(i) to (vi), which read as follows:

(Item i) An act of acquiring a trade secret by theft, fraud, duress or other unfair means (hereinafter referred to as an "unfair act of acquiring a trade secret") or an act of using or disclosing such acquired trade secret (including showing it to a specific person while otherwise maintaining secrecy);

(Item ii) An act of acquiring a trade secret or an act of using or disclosing such acquired trade secret with the knowledge that there was an intervening unfair act of acquiring the trade secret involved, or without knowledge thereof due to gross negligence;

(Item iii) An act of using or disclosing a trade secret after acquiring it with the knowledge that there was an intervening unfair act of acquiring the trade secret involved, or without knowledge thereof due to gross negligence;

(Item iv) An act of using a trade secret disclosed by the holder thereof for the purpose of carrying out unfair competition or some other act to make an unfair profit, or harming the holder thereof; or an act of disclosing the trade secret for such purpose;

(Item v) An act of acquiring a trade secret or an act of using or disclosing such an acquired trade secret with the knowledge that there was an unfair act of disclosing the trade secret involved (which means an act of disclosure referred to in the preceding item or an act of disclosing a trade secret in breach of a legal obligation to maintain secrecy; the same applies in subsequent provisions) or an intervening unfair act of disclosing the trade secret involved or without knowledge thereof due to gross negligence;

(Item vi) An act of using or disclosing a trade secret after its acquisition with the knowledge that there was an unfair act of disclosing the trade secret involved or that there was an intervening unfair act of disclosing the trade secret involved, or without knowledge thereof due to gross negligence.

We may group the six types of unfair acts defined above into two categories according to the nature of the predicate of the unfair act. The first group of unfair acts includes those described in Article 1 (3) items (i) to (iii), and the second group of unfair acts includes those described in Article 1 (3) items (iv) to (vi). The predicate act in the first group is the unlawful acquisition of a trade secret by theft, fraud, or other unfair means, whereas the predicate act in the second group is the lawful acquisition of a trade secret.

From a different perspective, we may group the six types of unfair acts into three groups of (a), (b), and (c): groups (a) and (b) begin with an unfair act, as mentioned above, and group (c) includes subsequent unfair acts. In this article, the explanation of the prohibited unfair acts will be made by referring to this classification of groups:

(a) An unfair act of acquiring a trade secret by theft, fraud, duress or other unfair means or an act of using or disclosing such acquired trade secret (Article 1 (3)(i)).

(b) An unfair act of using or disclosing a trade secret lawfully acquired, with the purpose of carrying out unfair competition or some other act to make an unfair profit or harm the holder of the trade secret (Article 1 (3)(iv)).

(c) An unfair act of either acquiring, using or disclosing a trade secret with knowledge, or without knowledge due to gross negligence, of an unfair act described in group (a) or (b) above (Article 1 (3)(ii), (iii), (v), and (vi)).

The unfairness of the acts in group (a) is extremely grave, and an unfair purpose or intention is thus not particularly required for unfair acts of this group. Commercial espionage would be included in this group. Within the concept of "other unfair means," not only



criminal acts but also other acts which seriously violate public order or morals are included. Thus, unauthorized copying of another person's business information written on a magnetic tape can be such an unfair means, even if the tape is not taken out from the holder's custody and thus no "theft" under the Penal Code has occurred. The term "disclosing" includes disclosure to both unspecified persons and specific person or persons, such as a licensee or contractor.

Even if criminal acts are involved, under the general tort theory, injunctive relief is not granted to a trade secret owner. Thus, it is most important to have the amended law so that injunctive relief becomes available.

Unfair acts in group (b) can include those committed by officers, employees, licensees or subcontractors, and others to whom the holder of a trade secret discloses a trade secret under a confidentiality agreement. As those persons will have acquired the trade secret lawfully, only when they later use or disclose the lawfully acquired trade secret for an unfair purpose will such an act constitute an unfair act. From this viewpoint, this group can be called the "breach of confidence" type of unfair acts. The "purpose" is described as "unfair competition or some other act to make an unfair profit or harm the holder of the trade secret."

When a trade secret is disclosed to an employee, subcontractor, licensee, etc., by an employer or other right holder, an agreement not to disclose the trade secret is concluded between the parties in many cases. Even without a specific provision in the contract, under a general employment agreement or contract, employees and the like are prohibited from disclosing trade secrets of their employer or another right holder on the basis of the fundamental principle of trust and good faith between contractual parties.<sup>11</sup>

In such cases, the new amendment to the law was not required

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11. *K.K. Athena v. K.K. Nagano-ken Computing Center*, 713 Hanrei-Jiho 83 (Tokyo Dist. Ct. Case No. Showa 46 (WA) 4095, decided February 19, 1973) is a typical case of nonperformance of obligation under the Civil Code. Athena (plaintiff) contracted with Nikkei McGraw-Hill (hereinafter called "Nikkei") to obtain the mailing list of a magazine published by Nikkei and received a computer tape list containing a list of about 8200 subscribers from Nikkei. Athena entrusted the tape to Naganoken Computer Center (defendant, hereinafter called "Nagano") to be printed out within 24 hours. Nagano made the printout and returned the tape within 21 hours, but in the meantime someone made a copy of the tape and sold it. Nikkei informed Athena, and in turn Athena informed Nagano, that the subscriber list was very valuable and the tape involved should be carefully handled and every reasonable means should be used to maintain secrecy.

Athena sued Nagano for damages and won the case. The Court adjudged that the defendant had assumed the obligation under Article 400 of the Civil Code of preserving the tape with the diligence of a good manager until it was returned to the plaintiff. Because of the high economic value of the tape, the obligation required by law includes not only preserving the tape physically, including preventing wear and tear, destruction or loss, but also preventing any depreciation in the value of the tape due to disclosure of

to obtain protection, and even without the amendment of the law, the holder of the trade secret was protected under the provisions of a contract or contract law principles. The same will be true in the future as well. However, the owner of a trade secret will now be able to select on which law he will base his claim. If the other party to a trade secrets agreement violates the agreement and uses the trade secrets for a purpose not permitted under the agreement or discloses them, the owner of the trade secrets may request an injunction and damages under Article 414 (1)<sup>12</sup> and Article 415<sup>13</sup> of the Civil Code, respectively.

The amended law will be applicable to cases where a worker suddenly leaves a company and joins a competitor to which he discloses the former company's trade secrets and to other similar cases where a contract does not exist. After the termination of employment, without a written agreement providing otherwise, a former employee is free to engage in any business, including a competitor's business. However, the former employee will, under the principle of trust and good faith, still be prohibited from using or disclosing the trade secrets of a former employer under certain conditions which will depend on the position and salary of the former employee in the company and the nature of the trade secret involved.

When an employee develops technical know-how by himself, and thus becomes a rightful possessor of the know-how, the know-how cannot be considered a trade secret shown or disclosed to him by his employer, and no act of the employee can fall within category (b), even if he sells the know-how to his employer's competitor and obtains a great deal of money, and even if the employee's act constitutes a breach of contract or confidentiality agreement between the employee and his employer. However, the competitor's act of acquiring the know-how from the employee can be considered an unfair act if the competitor knows (or should have known except for his gross negligence) of the above employee's act of breach of confidence, and the competitor's act will constitute an unfair act in category (c).

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the information contained on the tape to third parties. For these reasons, the Court allowed the claim for damages.

Article 400 of the Civil Code provides that "[i]f the subject of an obligation is the delivery of a specific thing the obligor is bound to preserve such thing with the care of a good manager until it is delivered."

12. Minpō (Civil Code), Law No. 89 of 1896, Art. 414. Article 414 (1) provides that "[i]f an obligor does not voluntarily perform his obligation, the obligee may apply to the Court for specific performance thereof; however, this shall not apply to cases where the nature of an obligation does not so admit."

13. Minpō (Civil Code), Law No. 89 of 1896, Art. 415. Article 415 provides that "[i]f an obligee fails to effect performance in accordance with the tenor and purport of the obligation, the obligor may claim damages; the same shall apply to cases where performance becomes impossible for any reason for which the obligor is responsible."

In such cases, the issue of who owns a trade secret is of importance, but this issue is left to be decided under other relevant laws, such as the Patent Law, the Law Concerning the Circuit Layout of Semiconductor Integrated Circuits, and the Copyright Law. If those laws are not applicable to the trade secret involved, ownership will be determined under the general civil law, taking into consideration the circumstances or conditions under which the trade secret was produced, such as the degree of usage of an employer's idea, equipment, personnel, money, plans, and working time, and the nature of the invention or creation.

In this connection, the importance of concluding a contract between employer and employee will increase under the new law, although in Japan, many still believe that written agreements are not necessary in such cases, and that the relationship between the parties is better regulated by mutual understandings on the basis of the principle of trust and good faith.

The person committing an unfair act will sometimes himself unfairly profit from the act, but sometimes the benefit will go to third parties, or more often both will benefit. The last situation is also covered by this Article. For instance, an employee might disclose confidential information belonging to his employer to a person who was formerly his boss, but now has left and established an independent company. If the employee was compensated for the disclosure, both the employee and his former boss's new company would have made an unfair profit. A typical example of "making an unfair profit" is profiting by engaging in "unfair competition," and thus "unfair competition" is particularly mentioned in the law. "Unfairness" is to be judged according to the degree or nature of the fiducial relationship and the principle of trust and good faith which is a fundamental principle throughout civil law.

Unfair acts in group (c) can be further divided into two subgroups. The first subgroup includes those acts where a person either acquires, uses, or discloses the trade secret when he already knows (or should have known except for his gross negligence) about an unfair act of acquisition or unfair disclosure stated in the groups of (a) and (b). In other words, the act is unfair within the meaning of the law from the beginning. Items (ii) and (v) of Article 1 (3) are in this subgroup. On the other hand, in the second subgroup are those acts where a person, after acquiring the trade secret in good faith, then uses or discloses the trade secret when he knows (or should have known except for his gross negligence) about an unfair act of acquisition or disclosure above stated. In other words, the initial act is legitimate, but a later act becomes unfair within the meaning of the law. Items (iii) and (vi) of Article 1 (3) are in this subgroup.

In the case of group (c), "with knowledge of an antecedent un-

fair act or an intervening unfair act, or without knowledge thereof due to gross negligence" is required as a subjective requirement.

The act of disclosing a trade secret in breach of a *legal obligation* is included in Item (v) in addition to an act of unfair disclosure in breach of confidence with an unfair purpose (see the text inside the parenthesis of the said Item). This legal obligation includes a variety of legal obligations, such as the director's obligation or loyalty to his company (Article 254 of the Commercial Code)<sup>14</sup> and a lawyer's obligation to maintain the confidentiality of information learned through his duty (Lawyer's Act, Article 23), and various other contractual obligations by which licensees, employees, and subcontractors are bound. As mentioned in the explanation of group (b), a company which knowingly receives directly from the employee of a competitor a trade secret which is the employee's own invention will be now regulated by Article 1 (3)(v) of the Law, because if the employee's invention is his employer's trade secret, he is at least bound by his employment relationship not to disclose the employer's trade secrets and not to harm his employer.

Under the present Civil Code, an employer suing his employee for breach of contract based on a trade secret may seek both damages and an injunction.<sup>15</sup> However, as to third parties with whom a trade secret owner does not have any contractual relationship, an injunction is not available under general tort theory, as rights in a trade secret are not enforceable against a third party.<sup>16</sup> Under general tort theory, as previously mentioned, damages are allowed but

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14. See Note 6 *supra*.

15. Judgment of October 23, 1970, Chisai (District Court), Japan, 624 Hanrei Jihō 78.

The two individual defendants were formerly employed by the plaintiff, Y.K. Foseco Japan, Ltd. (hereinafter called "Foseco"), in its research department, and had special agreements with the Foseco not to disclose any trade secrets or to participate in any competitive business for two years after leaving the company. However, they left Foseco. Foseco sought a temporary injunction against the two former employees and obtained an order prohibiting the defendants from engaging in the production and sale of certain metallurgical materials.

16. Judgment of September 5, 1966, Kōsai (High Court), Japan, source.

Waukesha Bearings entered into a license agreement with the plaintiff, Deutsche Werft, and received the technical know-how to manufacture stern tube sealings for ship propeller shafts, assuming an obligation to keep the know-how secret. Waukesha established a joint venture in Japan with a Japanese company, Chuetsu Waukesha, which engaged in manufacturing and selling the sealings. Deutsche Werft sued Chuetsu Waukesha for a temporary injunction against the production and sale, but the suit was dismissed. Deutsche Werft appealed that decision to the Tokyo High Court. The High Court dismissed the appeal holding that, although know-how has property value, the law does not make rights (whether they are rights to intangible property or rights based on obligations) enforceable against third parties.

Article 709 of the Civil Code provides that "[a] person who violates intentionally or negligently the right of another is bound to make compensation for damages caused thereby."

injunctive relief cannot be granted.<sup>17</sup>

With the amendment of the Law, even under the second subgroup, a trade secret owner is entitled to an injunction against a third party in addition to damages. This is the most important feature of the amended Law.

The crucial time for determining the existence of the required knowledge is the time when damages were suffered by the plaintiff in the case of a suit for damages, but it is the time when the oral pleading is completed in a case where an injunction was sought. During the course of the suit, the defendant will naturally be informed of the plaintiff's trade secret at issue, and the defendant will thus become at least knowledgeable about the unfair act involved even if he was acting in good faith without negligence at the time he obtained the trade secret. However, sending a cease and desist letter will not be sufficient to make the person alleged to have committed an unfair act aware of an unfair act which already occurred unless the trade secret involved is indicated in detail to such a degree that the person may identify it.

The amendment also modifies Article 2 of the Unfair Competition Prevention Law:

- “(1) The provisions of the preceding two Articles [Articles 1 and 1 *bis*] and Article 5 shall be inapplicable to acts which fall under any one of the following items: . . .
- (v) An act of using or disclosing a trade secret by a person who acquired the trade secret through a transaction consistent with the title or right he obtained through such transaction, provided that he acquires the trade secret without knowledge, and without gross negligence in not knowing, that an unfair act of disclosure was involved or there was an intervening unfair act of acquisition or disclosure (Article 2 (1)(v)).”

An exception to liability under the trade secrets law is granted by the important provision cited above. A person who acquires a trade secret through a transaction may use or disclose it within the title or right he obtained by such transaction unless at the time of acquisition he had knowledge, or committed gross negligence in not

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17. For example, Article 100 of the Patent Law provides that

- (1) Any patentee or exclusive licensee may make a claim against a person who infringes or is going to infringe his patent right or exclusive license for cessation or prevention of such infringement.”
- (2) A patentee or exclusive licensee may, at the time of making a claim under the provisions of the preceding paragraph, demand that any act necessary for the prevention of infringement be performed, such as the destruction of things which constitute infringement (including any thing created from the act of infringement in the case of a patented process invention).

Tokkyo Hō (Patent Law), Law No. 121 of 1959, Art. 100.

knowing, that an unfair act of disclosure or an intervening unfair act of acquisition or disclosure occurred.

The objective of this provision, which should be read together with the second subgroup of category (c) type unfair acts, is to preserve the validity and stability of transactions involving technical or business information. In other words, because of this exception, enterprises will not suffer unexpected, unreasonable damage as long as they exercise the reasonable care in transactions involving know-how as would be generally expected in transactions of that type.

The term "transactions" includes buying and selling, making a donation or gift, know-how licenses, accord and satisfaction, sales at auction, and the like. The employment of engineers who formerly worked for a competitor is not considered to be a "transaction," and the new employer will not be exempted under this provision if he utilizes the competitor's trade secrets obtained from the engineers.

In general, under Japanese law "without negligence" is equivalent to acting in good faith, but in the case of trade secrets, the drafters chose to use the phrase "without knowledge due to gross negligence" rather than "without negligence." This more permissive standard seems appropriate due to the vagueness of the concept of what actually constitutes a trade secret, which is not as easy to identify as tangible property. This subjective requirement must be proved by the defendant, the person who acquired the trade secret in the transaction.

By successfully showing that this exception applies, a person who acquires a trade secret in good faith may either use the trade secret by himself or disclose the confidential information to his subcontractor or sublicensee according to the conditions and terms as agreed when he acquired the trade secret, that is, within the title or right he obtained.

### 3. Civil Relief

#### (1) Injunctive Relief and Prescription

##### (a) Injunctive Relief

Article 1 (3) and (4) provide as follows:

"(3) An entrepreneur who possesses a manufacturing method, marketing method or other technical or business information useful in commercial activity which has been administered as a secret and has not been publicly known (hereinafter referred to as "trade secret") (hereinafter referred to as the "holder"), when he finds a person who is doing or may do any act that falls under any one of the following items (hereinafter referred to as an "unfair act relating to a trade secret"), and where his business interest is likely to be harmed by such unfair

act relating to a trade secret, may request cessation or prevention of such unfair act relating to a trade secret: . . .

(4) The holder, when he makes a claim under the provisions of the preceding paragraph, may also demand the destruction of the things that constituted unfair acts involving a trade secret (including media that embody the trade secret), the products of an unfair act involving a trade secret or equipment used for the unfair act involving a trade secret or other measures necessary for the suspension or prevention of an unfair act relating to a trade secret."

The necessity for injunctive relief was a strong force behind the drive which led to the present amendment of the law. Stress was put by the drafters of the amendment on a comparative study that showed that injunctive relief is available in many major countries, such as the United States, England, France, West Germany, Italy, Canada, Switzerland, and Austria.

Under the amended law, an injunction against an actual or forthcoming unfair act can be granted and, at the same time, the holder may demand the destruction of the things that constituted unfair acts, such as the specifications of a secret process, a floppy disk embodying trade secrets, products produced from an unfair act, or equipment used in committing an unfair act, or other measures necessary to stop or prevent an unfair act. Similar provisions are found in the Patent Law, Trademark Law, Copyright Law and other intellectual property laws.<sup>18</sup>

It should be added that even under the present Unfair Competition Prevention Law, which does not have express provisions for such additional remedies, there have been cases where the destruction of imitation goods, the containers thereof, signboards on which

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18. Article 38 of the Trademark Law provides that

- (1) Where the owner of a trademark or an exclusive license makes a claim against a person who has infringed, intentionally or negligently, his trademark or exclusive license rights for damages caused by such infringement, if such person has gained profits from that act of infringement, the amount of profits shall be presumed to be the amount of damages suffered by the owner of the trademark or exclusive license.
- (2) The owner of a trademark or exclusive license may claim as damages against a person who has infringed, intentionally or negligently, his trademark or exclusive license rights an amount equivalent to the amount normally obtainable for use of the registered trademark concerned.
- (3) The provisions of the preceding paragraph shall not preclude a claim for damages exceeding the amount set forth in the said paragraph. In such a case, if there is no malicious intention or gross negligence on the part of the person who has infringed the trademark or exclusive license rights, the court may take this into account in determining the amount of damages.

Shōhyō Hō (Trademark Law), Law No. 127 of 1959, Art.38.

Similar provisions are found in Article 102 of the Patent Law, Article 39 of the Design Law or Article 114 of the Copyright Law.

a trademark or trade name is shown, and the like, has been ordered by the court.

(b) Extinctive Prescription

Article 3 *bis* provides:

“A right to request cessation or prevention, under the provisions of Article 1, Paragraph (3) of an act of using a trade secret referred to in any of the items of the said paragraph shall cease to exist by prescription if it is not exercised by the holder whose interest in business is likely to be harmed if the person committing such act continues it, within three years from the time when such act and the person committing it have become known to him. The same shall apply when ten years have passed from the commencement of an act of using a trade secret referred to in any of the items of the said paragraph if the actor continues such act.”

As can be seen from this provision, a right to request an injunction ceases to exist by prescription if the holder does not exercise the right, while the unfair act involved is being continued, within three years from the time when he has learned of such act and the person committing it. If a holder does not know of the existence of the unfair act or the identity of the person committing it while the unfair act is being committed, the right to claim ceases to exist after ten years from the commencement of the act of using the trade secret.

The present Unfair Competition Prevention Law does not have any provision for expiration of the right to obtain an injunction, so there was concern that the introduction of this new system would have a bad influence on existing unfair competition cases. Careful consideration was given in order to avoid giving excessive protection to trade secrets, fostering abuse of the right to sue under the trade secrets law, or promoting unreasonable interference with transactions involving business or technical information. However, at the same time it was recognized that special measures should be provided with regard to transactions or competitive acts involving trade secrets as trade secrets had not previously been protected as such by means of injunctive relief.

The three-year period of prescription was patterned after the general principles of the corresponding provision of the Civil Code (Article 144 and following). Thus, the ten-year period was balanced with the prescription period already provided for demanding the performance of an obligatory right, such as the right to demand that the obligation to keep confidential information secret be performed (Article 167 (1) of the Civil Code).



## (2) Damages

Article 1 *bis*, Paragraphs (1), (3) and (4) provide as follows:

“(1) A person who intentionally or negligently commits an act which falls under any one of the items of Paragraph (1) of the preceding Article shall be liable for damages to a person whose business interests have been harmed thereby. . . .

(3) A person who intentionally or negligently harms the business interests of another by an unfair act involving a trade secret shall be liable for damages; provided, however, that this shall not apply to injuries caused by an act of using the trade secret after the expiration under Article 3 *bis* of the right to request cessation or prevention of an act of using a trade secret referred to in each item of Paragraph (3) of the preceding Article.

(4) A court, upon a request being filed by the injured person, may order a person who has injured the business goodwill of another by an unfair act involving a trade secret to take measures necessary for restoring his business goodwill in lieu of or together with damages.”

Damages are obtainable under the general tort provisions of the Civil Code as in other unfair acts generally on the condition that an act was done intentionally or negligently. However, the holder must prove (1) the intention or negligence of the actor, (2) the damage or loss of expected profit actually suffered due to the unfair act, and (3) a reasonable causal relationship.

Requirements (2) and (3) are always difficult to prove except when a person has sold products identical or closely similar to the plaintiff's products in the market, or especially in a market where only plaintiff sells that type of product, thus allowing a court to apply the cases concerning confusion as to the origin of the goods and use the presumption as to the amount of damages stipulated in Article 38 of the Trademark Law.<sup>19</sup>

In Japan, we do not have experience in calculating loss or damages in trade secrets cases, and for this reason no specific provisions were prepared for calculating damages, although a lawyer's group had requested that at least the same effect of the provision as is in the Trademark Law or the Patent Law<sup>20</sup> be adopted.

Damages are not obtainable under the law if the right to seek an injunction has ceased to exist. If the injured person requests, the court may order the necessary measures for restoring the business goodwill of the injured party instead of or together with damages. (Article 1 *bis* (4)). Similar provisions are provided in the Patent Law, Design Law, Trademark Law, etc. Although there is almost no case where the corresponding provision was applied in a patent

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19. *Id.*

20. *See supra* Note 16.

infringement case, it is likely that the provision will be used in trade secret cases to restore business goodwill. It will become necessary in cases where, for instance, the defendant sold products involving the trade secret which had an appearance confusingly similar to the products of the trade secret holder, but were of lower quality, and the defendant has announced that his products were manufactured by the same process and specifications as the holder, or in cases where the defendant sent some offensive or immoral material to the persons listed in the customer list of the plaintiff.

#### 4. Litigation

It must be admitted that Japan now has a machine for the protection of trade secrets, but we do not have sufficient oil to run it.

In Article 82 (1) of the Japanese Constitution, it is expressly stated that "trials shall be conducted and judgment declared publicly." This principle is very strongly expressed in all the laws of Japan, including the Civil Procedure Law and the Courts Law. Only when a court unanimously determines that publicity would be dangerous to the public order or morals will a trial be conducted privately (Article 82 (2) of the Constitution). This is an extremely rare exception.

On the basis of this fundamental principle, trials or hearings in trade secrets litigation will generally be held in courtrooms open to the public, just as trials in patent litigation have been conducted publicly, even if, for example, the chemical process used by the defendant is important and secret. Oral proceedings are entered into a record (Article 142 of the Civil Procedure Law), and any person is allowed to inspect the records of proceedings, and the parties involved in the suit and interested third parties may take a copy or obtain an original copy, certified copy or summary thereof (Article 151 (1) and (3) of the Civil Procedure Law).

If the court considers it proper to hear a witness outside the court (Article 265 of the Civil Procedure Law), the witness' testimony is also drawn up into a record.

The complaint, answer and the briefs in which the parties submit their arguments, contentions, refutations, opinions, etc., in written form and the evidence and exhibits offered are all included in the "record of the proceedings." It is impossible not to describe the trade secret involved in the complaint or briefs because the plaintiff is required to prove that (a) the plaintiff possesses a trade secret, and (b) the trade secret satisfies the requirements stated above in Section III. However there is no procedure for sealing the records, nor is any specific procedure, such as a protective order, available.

Careful deliberation and discussion have been focused on measures to protect trade secrets during the course of litigation. It

would be practically impossible to even impinge on the fundamental principle that trials be public. However, because of the great difference in the importance and social demand for protecting secret technical and business information between the present time and the time when the Constitution was enacted in 1946, "public order or morals" might be interpreted differently today. Moreover, it has been pointed out by scholars that the right to inspect records of proceedings is not itself a requirement of the Constitution. Notwithstanding the possible different interpretations, unless the present Civil Procedure Law is partially amended, trade secret litigation will not be free from danger, and thus a trade secret holder, and particularly his attorney, should exercise considerable care in choosing the party to be sued, the relief to be sought from the court, the scope of the protection available under the civil procedure rules, the best way to describe the trade secret, the evidential materials to be submitted, and so on.

It is believed, however, that the courts, the parties, and the attorneys will discover effective methods of protecting trade secrets during litigation as they gain experience in this area.

#### IV. IMPACT OF THE AMENDMENT

The amendment to the law was carefully designed not to greatly or suddenly change the present status of trade secrets in industry. However, notwithstanding the statements by the drafters of the amendment to the contrary, business practices will inevitably change, and seem to have already started to slowly change, because the wording and text of the law are more reliable than the intent of the drafters.

To satisfy the requirement of "being administered as a secret" (see Section III 1), enterprises will have to create measures for maintaining strict control over trade secrets, establish regulations or rules within enterprises, and more frequently than at present, request the parties concerned to sign confidentiality agreements before disclosing trade secrets to them. Small-to-medium sized enterprises have started to study what they will have to do to meet the "minimum" requirements of the law.

To properly identify the trade secrets to be protected, enterprises will have to define them more clearly and in detail in the confidentiality agreements with their engineers, subcontractors, etc., and conclude agreements with their employees to not divulge their employers' trade secrets after leaving their employment.

To avoid controversies over the ownership of a trade secret, enterprises will need to pay careful attention to the ownership rules which currently exist relating to other forms of intellectual property, which concern mainly the acquiring of a statutory license and

making proper payment for an employee's invention as required by the Patent Law (Article 35), or for rights under the Copyright Law (Articles 14 - 16).

To benefit from the exception for transactions "without knowledge" and "without gross negligence in not knowing about an antecedent or intervening unfair act" (Section III 2 (3)(d)), a person who acquires a trade secret in a transaction will have to exercise due care and obtain guarantees from the other party to the transaction that he will not be liable for any loss or damage which might arise from that transaction, and clarify the scope of the right or title granted in the sales contract or license agreement.

It is unfortunate that Japanese society will be contaminated with an overabundance of "contracts" in place of the loyalty, mutual respect, and duty that so far has prevailed in Japanese society. However, change seems necessary, with or without the new law, in order to promote acceptable business practices, enhance international business competition and meet internationally accepted standards. As a matter of fact, Japanese enterprises and lawyers find it necessary to study these practices in the major countries of the world in any event.

In these circumstances, trade secrets will increase in importance in society, and even though the legal framework for protecting the secrecy of trade secrets during litigation is insufficient, litigation will undoubtedly be brought seeking injunctive relief, first probably by American enterprises, or by big companies against smaller companies or former employees.

Our role as Japanese lawyers is thus very important for protecting smaller, newer and weaker companies and employees by endeavoring to give them more appropriate advice and to help them from a legal viewpoint.

*Appendix* Unfair Competition Prevention Law  
as revised in 1990.

UNFAIR COMPETITION PREVENTION LAW  
(Law No. 14, March 27, 1934)

Amendments:

- Law No. 2, March 8, 1938
- Law No. 90, April 1, 1950
- Law No. 26, March 26, 1953
- Law No. 81, May 24, 1965
- Law No. 46, June 25, 1975
- Law No. 66, June 29, 1990

Translated by Kazuko Matsuo, 1990©<sup>1</sup>

(Cessation of Unfair Competition)

Article 1. When there is a person who commits an act falling under any one of the following items, a person whose business interest is likely to be harmed thereby may request cessation or prevention of such an act:

(i) An act of using an indication identical with or similar to the name, trade name, trademark, container, packing of goods or any other indication of goods showing another person which is widely known in the territory where this law is in force on an act of selling, distributing or exporting goods bearing such indication, and thereby causing confusion with the goods of another person;

(ii) An act of using an indication identical with or similar to the name, trade name, mark of another person or any such other indication of the business and goodwill of another person which is widely known in the territory where this law is in force and thereby causing confusion with the business establishment or activities of another person;

(iii) An act of making a false indication of the place or origin of the goods or advertisements thereof or on business papers or correspondence in such a way as to be easily recognized by the public or an act of selling, distributing or exporting goods on which such an indication is used, and thereby causing deceptiveness of the place of origin;

(iv) An act of making a misleading indication, on goods or advertisements thereof or on business papers or correspondence in such a way as to be easily recognized by the public, causing the public misunderstanding that such goods are produced, manufactured or processed in a place other than the place where they are

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1. Trade secret provisions are italicized.

actually produced, manufactured or processed or an act of selling, distributing or exporting goods on which such an indication is used;

(v) An act of making a misleading indication, on goods or advertisements thereof, causing misunderstanding with respect to the quality, contents, manufacturing method, use, or quantity or such goods or an act of selling, distributing or exporting goods on which such an indication is used;

(vi) An act of making or circulating a false statement of facts which injures the business goodwill of a person who is in a competitive relationship.

(2) A proprietor of the right relating to trademark (only limited to the right equivalent to the trademark right; hereinafter the same) in the countries of the Paris Convention (hereinafter referred to as the "countries of the Union") of March 20, 1883 for the Protection of Industrial Property as amended on December 14, 1900 in Brussels, on June 2, 1911 in Washington, on November 6, 1925 in the Hague, on June 2, 1934 in London, on October 31, 1958 in Lisbon, and on July 14, 1967 in Stockholm may request his agent or his representative, or his ex-agent or his ex-representative who has, without justifiable reason, used, without the consent of the proprietor of the right relating to the said trademark, a trademark identical with or similar to the said trademark under said right for identical or similar goods, or has effected sale, distribution or exportation of the same or similar goods using the said trademark to cease the acts. Provided that, this shall not apply to his ex-agent or his ex-representative who was neither his agent or his representative within one year before the day of beginning of the acts.

(3) *An entrepreneur who possesses a manufacturing method, marketing method or other technical or business information useful in commercial activity which has been administered as a secret and has not been publicly known (hereinafter referred to as a "trade secret") (hereinafter referred to as the "holder"), when he finds a person who is doing or may do any act that falls under any one of the following items (hereinafter referred to as an "unfair act relating to a trade secret"), and where his business interest is likely to be harmed by such unfair act relating to a trade secret, may request cessation or prevention of such unfair act relating to a trade secret;*

(i) *An act of acquiring a trade secret by theft, fraud, duress or other unfair means (hereinafter referred to as an "unfair act of acquiring a trade secret") or an act of using or disclosing such acquired trade secret (including showing it to a specific person while otherwise maintaining secrecy);*

(ii) *An act of acquiring a trade secret or an act of using or disclosing such acquired trade secret with the knowledge that there*

*was an intervening unfair act of acquiring the trade secret involved, or without knowledge thereof due to gross negligence;*

*(iii) An act of using or disclosing a trade secret after acquiring it with the knowledge that there was an intervening unfair act of acquiring the trade secret involved, or without knowledge thereof due to gross negligence;*

*(iv) An act of using a trade secret disclosed by the holder thereof for the purpose of carrying out unfair competition or some other act to make an unfair profit, or harming the holder thereof; or an act of disclosing the trade secret for such a purpose;*

*(v) An act of acquiring a trade secret or an act of using or disclosing such an acquired trade secret with the knowledge that there was an unfair act of disclosing the trade secret involved (which means an act of disclosure referred to in the preceding item or an act of disclosing a trade secret in breach of a legal obligation to maintain secrecy; the same applies in subsequent provisions) or an intervening unfair act of disclosing the trade secret involved or without knowledge thereof due to gross negligence;*

*(vi) An act of using or disclosing a trade secret after its acquisition with the knowledge that there was an unfair act of disclosing the trade secret involved or that there was an intervening unfair act of disclosing the trade secret involved, or without knowledge thereof due to gross negligence.*

*(4) The holder, when he makes a claim under the provisions of the preceding paragraph, may also demand the destruction of the things that constituted unfair acts involving a trade secret (including media that embody the trade secret), the products of an unfair act involving a trade secret or equipment used for the unfair act involving a trade secret or other measures necessary for the suspension or prevention of an unfair act relating to a trade secret.*

#### (Responsibility for Damages)

##### Article 1 bis.

(1) A person who intentionally or negligently commits an act which falls under any one of the items of Paragraph (1) of the preceding Article shall be liable for damages to a person whose business interest has been harmed thereby.

(2) An agent or representative who has intentionally or negligently committed an act which falls under Paragraph (2) of the preceding Article or a person who had been an agent or representative within one year before the commencement of such an act shall be liable for damages to a person who owns a right relating to a trademark referred to in the same paragraph and whose business interests have been harmed thereby.

(3) *A person who intentionally or negligently harms the busi-*

*ness interest of another by an unfair act involving a trade secret shall be liable for damages; provided, however, that this shall not apply to injuries caused by an act of using the trade secret after the expiration under Article 3 bis or the right to request cessation or prevention of an act of using a trade secret referred to in each item of Paragraph (3) of the preceding Article.*

(4) A court, upon a request being filed by the injured person, may order a person who has injured the business good will of another *by an unfair act involving a trade secret* to take measures necessary for restoring his business goodwill in lieu of or together with damages.

(Exemption from Application to Generic Name etc.)

Article 2. The provisions of the preceding two Articles and Article 5 shall be inapplicable to acts falling under any one of the following items:

(i) An act of using, in a way commonly adopted, a generic name of goods (excluding regional appellations concerning the origin of products of the vine which have become generic names) or an indication customarily used for goods of the same kind in business transactions or an act of selling, distributing or exporting goods on which said name or indication is used;

(ii) An act or using in a way commonly adopted a name or any other indication customarily used in a business of the same kind in business transaction;

(iii) An act of using in good faith one's own name or an act of selling, distributing or exporting goods on which the said name is used;

(iv) An act of using an indication identical with or similar to the indication as mentioned in Article 1 Paragraph 1 Item (i) or Item (ii) on the part of a person who has been using in good faith such an indication from before the time that the indication as mentioned in Article 1 Paragraph 1 Item (i) or Item (ii) became widely known in the territory where this law is in force or on the part of a person who succeeds to the use of such an indication together with the goodwill and business of said person or an act of selling, distributing or exporting goods on which such an indication is used.

(v) *An act of using or disclosing a trade secret by a person who acquired the trade secret through a transaction consistent with the title or right he obtained through such transaction, provided that he acquires the trade secret without knowledge, and without gross negligence in not knowing, that an unfair act of disclosure was involved or there was an intervening unfair act of acquisition or disclosure.*

(2) Against a person who commits the acts as mentioned in the preceding Paragraph, Item (iii) or Item (iv), a person whose



business interest is likely to be injured therewith may make a request to attach an indication appropriate to prevent confusion of goods, business facilities or business activities. Provided that, this shall not apply to those who merely sell, distribute or export goods.

(Capacity of Foreign Nationals)

Article 3. A foreign national other than those belonging to any countries of the Union who has neither a domicile nor a business establishment within the territory where this law is in force is not entitled to make any request as mentioned in Article 1, Article 1 *bis*, and Paragraph (2) of the preceding Article except as otherwise provided in a treaty or an equivalent thereof.

(Prescription)

Article 3 *bis*.

*A right to request cessation or prevention, under the provisions of Article 1, Paragraph (3) of an act of using a trade secret referred to in any of the items of the said paragraph shall cease to exist by prescription if it is not exercised by the holder whose business interest is likely to be harmed if the person committing such act continues it, within three years from the time when such act and the person committing it have become known to him. The same shall apply when ten years have passed from the commencement of an act of using a trade secret referred to in any of the items of the said paragraph if the actor continues such act.*

(Prohibition to Use Foreign Coat of Arms, Flags, etc.)

Article 4. The armorial bearings, flags and other state emblems or foreign countries identical with or similar to those as designated by the competent Minister may not be used as trademarks, or goods on which they are used as trademarks may not be sold or distributed, without permission of the authorities of those countries.

(2) The armorial bearings as mentioned in the preceding Paragraph may not be used in business transaction in a way liable to cause misapprehension of origins of goods, or goods on which they are used may not be sold or distributed, without permission of the authorities of those countries.

(3) The official control and guarantee stamps and signs of foreign countries identical with or similar to those as designated by the competent Minister may not be used as trademarks of identical or similar goods on which they are used may not be sold or distributed, without permission or the authorities of those countries.

(4) In case the use of the armorial bearings, flags, and other state emblems or official control and guarantee stamps and signs of

Japan is permitted by the competent authorities, the provisions of the preceding paragraphs shall not apply even though they are identical with or similar to the coats of arms, flags and other state emblems or official control and guarantee stamps and signs of foreign countries.

(Ditto)

Article 4 *bis*. The armorial bearings, flags and other emblems abbreviations or titles of international intergovernmental organizations of which one or more countries of the Union are members, which are identical with or similar to those designated by the competent Minister shall not be used as a trademark, or goods on which they are used as the trademark shall not be sold or distributed, by such method as causing deceptiveness to have any connection with said international organization, without the authorization of the said international organization.

(Penal Provisions)

Article 5. A person falling under one of the following items shall be punished with penal servitude not exceeding three years or a fine not exceeding 500,000 yen:

(1) A person who makes on goods or advertisements thereof a false indication liable to cause deceptiveness with respect to the origin, quality, contents, manufacturing method, use, or quantity thereof;

(2) A person who commits for purposes of unfair competition the act falling under Article 1 Paragraph (1) Item (i) or Item (ii);

(3) A person who commits for purpose of unfair competition the acts falling under Article 1 Paragraph (1) Item (iii) to Item (v) inclusive;

(4) A person who violates the provisions of the preceding two Articles.

(Ditto)

Article 5 *bis*. When a representative of a juridical person or an agent, employee or other worker of a juridical person or of a natural person commits the offenses as mentioned in the preceding Article with respect to the business of the juridical person or of the natural person, the juridical person or the natural person shall be subjected to the fine under the same Article in addition to punishment of the offender.

(Exemption from Application of Intellectual Property Rights)

Article 6. The provisions of Article 1 Paragraph (1) Item (i)

and item (ii) as well as Paragraph (2), *Article 1 bis Paragraphs (1), (2) and (4)*, Article 4 Paragraph (1) to Paragraph (3) inclusive, and Article 4 bis as well as Article 5 Item (ii) shall not apply to any act to be regarded as the exercise of right in accordance with the Patent Law, the Utility Model Law, the Design Law or the Trade Mark Law.

#### Supplemental Provisions:

##### (Effective Date)

*Article 1. This Act shall take effect from the date prescribed by a cabinet order within one year from the date of its promulgation.*

##### (Transitional Measures)

*Article 2. The provisions of Article 1 Paragraphs (3) and (4) and Article 1 bis Paragraph (3) of the Unfair Competition Prevention Law as amended by this Law (hereinafter referred to as the "new Law") shall be inapplicable to an unfair act relating to trade secrets referred to in Article 1 Paragraph (3) of the new Law which is done after the effective date of this Law but was involved in an unfair act of acquiring trade secrets referred to in Article 1 Paragraph (3) Item (i) of the new Law or an unfair act of disclosing trade secret referred to in Item (v) of the same paragraph which was done before the effective date of this Law (other than acts listed in the following Items), and to an act of continuous use of trade secrets referred to in Item (iv) of the same paragraph which was commenced before the effective date of this Law:*

*(i) An act of disclosing trade secret referred to in Article 1 Paragraph (3) Items (i) to (iii), (v) and (vi) of the new Law.*

*(ii) An act of acquiring trade secrets referred to in Article 1 Paragraph (3) Items (ii) and (v) of the new Law and an act of using trade secret which was acquired by such act.*