

Two Decisions on Unfair Competition Prevention Law

Civil Code Sec. 709 – “Metallic Machine Tools”

Employees that with the intention of leaving their employer and setting up a competing enterprise inform their employer’s customers of such intention with the purpose of soliciting business for their new enterprise, yet conceal such intention from their current employer, do not engage in unfair competition or commit an act of tort.

Supreme Court, decision of 25 March 2010

Facts:

The plaintiff is a company engaged in the production of industrial robots and metallic machine tools. The first defendant was one of the plaintiff’s ten employees, and was in charge of marketing, while the second defendant was in charge of production. Upon leaving their employment, the first and second defendant set up a company directly competing with their former employer. With defendants 1 and 2 as directors, the new company’s customers are overwhelmingly former customers of the plaintiff – they contribute to 80%–90% of the new company’s turnover, while at the same time the plaintiff’s business has dropped by about 20%. Although no restrictive covenant was agreed upon, the plaintiff now sues for damages due to a significant loss of revenue. The first instance (Nagoya District Court, 28 August 2008) dismissed the action, while the second instance (Nagoya High Court, 5 March 2009) held that the defendants had acted outside the scope of free and fair competition, and partly allowed the damage claim based on tort law. The defendants appealed.

Decision:

The appeal is allowed to the extent indicated below, and otherwise rejected.

On the defendants’ appeal:

1. In the case at issue, the plaintiff’s employees (defendants 1 and 2), after terminating their employment, set up defendant 3 (the defendants’ new company) in order to compete. This has caused a loss to the plaintiff that now sues for damages based on tort law or contract law, as there allegedly was a fiduciary duty not to compete.

2. The facts that have been ascertained by the previous instance are these:

(1) The plaintiff is a company with ten employees engaged in the production of industrial robots and metallic machine tools. Defendant 1 was principally responsible for marketing, while defendant 2 was principally responsible for the production. There was

no agreement between the plaintiff and the defendants that would have imposed a restrictive covenant on the latter.

(2) The defendants in April 2006 had a common plan to set up a production of metallic machine tools and engage in the same business as the plaintiff, and, upon making the necessary financial arrangements, defendant 1 left the plaintiff's company on 31 May 2006, and defendant 2 on 1 June. Even before, the defendants had set up the defendant company (defendant 3), and defendant 1 became the company's director on 5 June, although the registration process was only commenced in December 2006, and completed in January 2007.

(3) While employed at the plaintiff's, the defendants visited four companies for a farewell visit. Afterwards, two of these companies expressed their interest to deal with the defendants in the future. The defendant company then started dealing with one customer as of June 2006, and as of October, the defendant company had also built up a continuing business relationship with the other three companies by supplying them (which supply is subsequently referred to as the "act of competition"). In fact, about 80%–90% of the defendant company's supplies went to these companies.

(4) Increasingly, the plaintiff's business was deteriorating, and especially orders from one of the above customers were no longer coming in. After the defendants' terminated their employment, the plaintiff could no longer take care of the sales activities with its customers, and this led to a decline in orders. The above four companies represented about 30% of the plaintiff's turnover, and after the defendants had left, the plaintiff's turnover diminished by about 25%.

(5) The defendants did not inform the plaintiff about their acts of competition, and this became known to the plaintiff only as of January 2007.

3. The decision under appeal in evaluating the above facts came to the following decision and partly granted the plaintiff's requests.

(1) Acts by former employees that, judged by accepted standards of society, fell outside the scope of free competition, should be considered unlawful. In the case of former employees taking on former customers of the employer, this should be considered an unlawful act towards the former employer.

(2) These acts of competition were carried out by the defendants 1 and 2 in order to run their business, and they were trying to conceal from the plaintiff that they were targeting the plaintiff's customers by, for example, registering the defendant 1 as director only at a very late stage. The defendants' took advantage of their previous business relationships by diverting the plaintiff's customers and finally taking over a substantial amount of the plaintiff's previous business, thereby causing damage to the plaintiff. This clearly surpasses the limits of free competition under generally accepted social norms, and qualifies an act of tort.

4. On the following grounds, the lower court's findings under above (2) cannot be affirmed. While the defendants on their farewell visits expressed their interest in receiving

orders from the plaintiff's customers after establishing their own business, this does not qualify as an improper sales activity, as would for example be misappropriating the plaintiff's trade secrets, harming the plaintiff's reputation or unduly exploiting business relationships by using the sales position within the plaintiff's firm. The business relationship with three of the plaintiff's customers only commenced three months after the defendants had left the plaintiff, and in the case of one customer, the plaintiff showed a rather lacklustre business attitude, and the defendants' immediately started a business relationship with this customer. It is thus difficult to see how free trade between the plaintiff and its customers was hindered, while it cannot be established that the defendants took undue advantage of the situation. It also cannot be affirmed that the late registration of the first defendant's position as director was deliberate. Furthermore, former employees have no obligation to inform their employer of any intention to engage in competition, and it is thus not unlawful that the defendants' did not do so. Neither are there any other factors that make the defendants acts unlawful or qualify as going beyond the boundaries of free competition according to socially acceptable norms. The defendants have thus not engaged in any acts of tort.

5. For the above reasons, the decision under appeal was incorrect and should be set aside. The first instance decision that dismissed the case is therefore correct and should be reinstated.

The decision was unanimous.

*Translated from the original by Christopher Heath**

* Dr. iur., European Patent Office.

**Art. 3(1)(i) Bern Convention, Copyright Act Sec. 6(iii), Civil Code Sec. 709 –
“Mitsurei 27”**

1. Where a country that is not recognised by Japan as a state (here: North Korea) has acceded to a multilateral agreement (here: The Bern Convention of the Protection of Literal and Artistic Works) already in force in Japan, such country's accession to the agreement does not directly give rise to rights and obligations under the agreement in relation to the country not recognised as a State, unless the obligations arising under the agreement are considered of universal nature under general international law.
2. In the absence of a notification by the government concerning the accession of North Korea to the Bern Convention, nationals of North Korea do not enjoy protection of their works as foreigners of a Convention Country under Sec. 6 Copyright Act and Art. 3(1)(i) Bern Convention.
3. Where a work is not protected under the Japanese Copyright Act because its author is a national from a country where no obligation for protection exists (here: North Korea in relation to Japan), the use of such work without permission cannot be considered an act of tort unless there are special circumstances whereby legally protected interests are affected.

Supreme Court, decision of 8 December 2011

Chōsen Eiga Yushutsu Nyūsha et al. v. Nihon Terebi

Facts:

The first plaintiff is a North Korean administrative body under the supervision of the North Korean Ministry of Culture, while the second plaintiff is a company called “Kanario Plan” that plans, makes and administers films. The second plaintiff by contractual agreement administers all films for which copyright belongs to the first plaintiff. The second plaintiff has thereby received the sole right to show, reproduce and distribute North Korean films in Japan, inter alia the film “Mitsurei 27” (or The Young Girl Selling Flowers) that was made in 1972.

The defendant is a Japanese tv channel that in the context of the news programme “News Plus 1” several times showed a ten minute sequence of “Mitsurei 27” without permission. According to the plaintiffs, this infringed the copyrights in the films owned by the first plaintiff and administered by the second plaintiff. The plaintiffs therefore requested injunctive relief and damages.

North Korea by 28 April 2003 became a Member to the Bern Convention. However, the accession has not been officially published in Japan, because Japan does not recognise North Korea. For this reason, the defendants have argued that the work of a North Korean citizen is not a work Japan is obliged to protect under Sec. 6(3) Copyright Act, for which reason the claim should be dismissed.

The first instance court dismissed the claim, and the plaintiffs appealed. In addition to the arguments under copyright law, the plaintiffs argue that even a work that does not enjoy copyright protection in Japan should be considered a protectable commercial interest whose infringement would entitle to damages under Sec. 709 Civil Code (general tort law clause).

The second instance decision (Intellectual Property High Court, 24 December 2008) dismissed the copyright claim, but upheld the claim under tort law in the amount of 120,000 Yen (about 1,000 Euro). According to the court, Japan did not recognise North Korea as a subject under international law. Where such country acceded to an international agreement, no rights or obligations could ensue for Japan: "It would be difficult to understand why the relationship of rights and obligations deemed non-existent for a country diplomatically not recognised should suddenly be altered by the accession of such country to an international agreement, without a corresponding diplomatic recognition." The court held that this was different only for agreements that related to general human rights standards such as agreements against genocide or torture that expressed universally recognised standards of humanity. Copyright was not amongst these, albeit the Declaration of Human Rights mentioned copyright in Art. 27(2). However, the Bern Convention only envisaged the protection of works of citizens of Member States and did not provide protection for all works of humanity in general. The court distinguished the position of North Korea from the one of Taiwan in that the latter, although diplomatically not recognised as a country, was a Member to the TRIPS Agreement that also provided for membership of custom's territories whose citizens should therefore be awarded protection accordingly.

As to the tort claim, the court affirmed that the film in question ("The young girl selling flowers") was undoubtedly a valuable work that in the past had been commercialized via a French company. For that reason, the second plaintiff could indeed have profited from a commercial exploitation, while such interest could not be affirmed for the first plaintiff that was not involved in any commercial exploitation of the film. Although the sequence of the film that was shown on TV was relatively short (128 seconds), this had to be compared to the overall length of TV programme of six minutes. Against this background, the unlicensed broadcast of the film sequence was socially not adequate and unlawfully compromised the commercial interests of the second plaintiff. It was no defence that the work could not be protected under copyright law. There could also be works whose production involved a lot of investment and effort, but that could not be protected under copyright law, and it would be inappropriate to hold that these works were completely devoid of protection. All circumstances of the case should be taken into

account, and in the case at issue, the acts of the defendant could not be qualified as equitable or justified. Rather, they amounted to an act of tort.

The plaintiffs appealed to the Supreme Court, and the defendant cross-appealed.

Reasons:

II. [On the appeal]:

2. Where a country that is not recognised as a State has acceded to a multilateral agreement already in force in Japan, accession of such a non-recognised country does not immediately produce an effect between Japan and such country, such as rights and obligations, unless the agreement would be one under general international law enshrining universal values. Where this is not the case, it is up to Japan to determine whether the accession produces any rights and obligations with respect to Japan. Although the Bern Convention protects authors of Convention countries under Art. 3(1)(a), it does not generally protect authors of nationals whose countries are not Convention countries. Rather, it protects these works only to the extent that they were first or simultaneously published in a Convention country, Art. 3(1)(b) Bern Convention. The Convention thereby protects works of Convention countries, but does not reflect universal principles of international law—When North Korea, a country not recognised by Japan, acceded to the Bern Convention, to which Japan had already been a member, the Japanese government did not publish a notification that the Convention had become with respect to North Korea. Both the Ministry of Foreign Affairs and the Ministry of Culture consider that Japan has no obligation under the Bern Convention to protect works of North Korean citizens in the same way as works of Convention countries are protected. Regardless of North Korea's accession to the Bern Convention, the Japanese government thus considers that there are no rights and obligations in regard to North Korea, a country it does not recognise. It therefore appears correct to decide that Japan does not have obligation under Art. 3(1)(a) Bern Convention to grant protection to works of North Korean citizens, and that such works do not qualify as works under Sec. 6(iii) Copyright Act. The Supreme Court decision of 14 February 1977 concerned different facts and does not apply to the current case.

3. The plaintiffs' appeal must therefore be dismissed, as the films in question are not copyrightable works under the Copyright Act. Consequently, the appealed decision is upheld on this point, and the plaintiffs' arguments are not accepted.

III. [On the cross-appeal]

2. The Copyright Act grants exclusive rights for the use of a work in certain circumstances, and in order to strike an appropriate balance between such exclusive rights and the interest in free culture, stipulates the conditions under which a copyright comes into existence, what its scope and limits are, and when a copyright ceases to exist. The Act thus stipulates the rights and limits of copyright. In order to achieve such purpose, Sec. 6

Copyright Act defines the categories of works to be protected. A work not covered by this provision does therefore not enjoy exclusive rights. It therefore appears correct to decide that the use of such work that cannot be subsumed under the categories of works under Sec. 6 Copyright Act does not qualify as an act of tort in the absence of special circumstances, namely the infringement of legally protected interests (other than the interests of using the work in accordance with the Copyright Act).

3. For the case at issue, the following should apply. As mentioned above, the film does not qualify as a copyrightable work under Sec. 6(iii) Copyright Act. The interests the second plaintiff has in the exploitation of the film are none other than the interests in an exclusive use in Japan, which, however, are determined under the Copyright Act. Thus, the interests of the second plaintiff may be affected by the unlicensed broadcast, but this as such cannot be regarded as an act of tort. Probably the second plaintiff's business was injured by the broadcast, and the interest would have been to conclude an agreement for such use. But according to the facts, the broadcast took place in the context of a news reporting that took six minutes and was meant to show the reality in North Korea. In order to do so, only 128 seconds of a two-hour film were shown, and the extent was appropriate within this context. The broadcast thus did not surpass the limits of free competition and injure the business interests of the second plaintiff, for which reason these interests have not been unlawfully infringed. Thus, the defendant's acts do not amount to a tort.

4. The decision under appeal that went beyond such finding therefore has to be set aside to this extent, and the defendant's appeal be allowed, while the plaintiffs' appeal has to be rejected.

...

The decision has been unanimous.

*Translated from the original by Christopher Heath**

* Dr. iur., European Patent Office.

