Theory of Intellectual Property Law

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1. General

Most previous attempts to systematize intellectual property laws were based on a methodology which focused on the nature of the information being protected by the respective intellectual property law. This was typified by the attempt to classify the intellectual property laws as laws for creation (such as patent law, design law, copyright law, and other similar laws) or as laws for recognition (trademark law, and other similar laws).

However, in the rapidly changing intellectual property legal landscape, as evidenced for example by the proposed legislation for computer software (which was eventually determined to be covered by the Copyright Law), the enactment of the Act Concerning the Circuit Layout of Semiconductor Integrated Circuits, or the introduction of regulations on imitations of the trade dress of goods under the Law for the Prevention of Unfair Competition, it is desirable to establish a structure which serves not only a theory for the recognition of the current laws, but also for that of new legislation as well. For that reason, as long as there remains a benefit from a prior entry to the marketplace, or any other incentives actually existing in the market besides the intellectual property law system, which continues to play a substantial role in encouraging innovation, it will be necessary to establish a framework which incorporates these de facto incentives in conjunction with the legal system.

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Furthermore, the conventional classification of intellectual property laws, premised on the criteria of information that needs to be protected, is defective from a theoretical standpoint for the purposes to recognize the current laws as well. Such defects can be found in cases, for example, where it is hard to explain why certain information which in and of itself has hardly demonstrated the need to be protected (e.g., trademarks, goods, or other symbols) is in fact protected under the laws for recognition (although some symbols, especially famous symbols, are themselves a valuable property). They can also be found in cases where it is unclear how best to categorize their governing regulations, like the regulation on the misappropriation of trade secrets, which protects items which are not necessarily created (e.g., customer information. stock prices, etc.) but which is not categorized under the laws for recognition. In short, since the support-type intellectual property laws, whose goal is to recover the autonomy of the de facto incentives existing in the market, are not designed to directly protect innovation (information), there arises a discord with the requirements and the effects of the current laws if we still try to hold to a methodology which focuses on the information/innovation to be protected.

For this reason, we need to take into account the effects of those incentives which already exist in the marketplace by establishing a flexible structure which will lead to the creation of a new legal system while also contributing to the theory for the recognition of the current laws. Specifically, problems would be solved through the development of a theory for interpretation and a theory for legislation through the following three steps:

1. By exploring the boundary between the reliance on market forces and the intervention by the law from the perspective of the division of roles between the marketplace and the law ("market-oriented intellectual property law perspective").

2. If it is deemed that the intervention of the law is required, the next step is to present the issue of the division of each party's role with regard to the rendering of such decision. For example, should the decision of courts be sufficient, or should the decision by another professional organization (such as the Patent Office) also be required? In addition, the method of regulation must also determine the form of the legal system. That is, is it sufficient to allow claims for compensation (including the claim for compensation for damages) alone, or must we also allow for injunctions as well, or is it necessary to establish a registration system, which would thereby grant protection and make it easier to assign rights ("functional intellectual property law perspective").

3. By completing the theory of the intellectual property law system through an in-depth review of whether or not the regulation of the law established as a result of the above procedures does not excessively restrict the liberty of private persons to speculate or act ("liberty controlled intellectual property law perspective").

2. Market Oriented Intellectual Property Law Perspective (Division of Roles Between the Market and the Law)

1) Decision regarding the necessity of regulation by law

We begin by noting that not all acts of free riding on the innovation of other should be prohibited. Despite the fact that we derive benefit from the inventions of Edison, enjoy music composed by Beethoven, and read the Analects of Confucius, it is not generally thought that we should pay compensation to these creative geniuses. As such, it can be seen that the world develops and prospers by free riding.

However, there are some exceptional cases where we need to consider some form of regulation to prevent free riding from causing harm to a developer or innovator, and where such damage would undermine the incentive to develop future innovations. It is generally thought that it is necessary to secure the incentives for the development of future innovations even if it means prohibiting socially beneficial free riding. However, on the contrary, such restrictions should only be limited to such cases where there is legitimate harm caused to the innovating party, while maintaining a cautious approach to ensure that the excessive restriction on free riding does not hinder socially beneficial innovations and developments.

In order to explore the boundaries of the intervention by law, we need to focus first on the division of roles between the de facto incentives for the development of innovations existing outside the law in the marketplace, and the law in general. This is because we can rely completely on the incentives existing in the marketplace only if there is no need for the intervention of the law. For example, there is no regulation

under the current laws regarding the reproduction of new types of businesses (e.g., pizza delivery services, convenience stores, new types of magazines, etc.) and therefore there is nothing to prevent free riding in these categories from taking place. This is because it is generally held that the benefit which accrues from being the first-to-market in the respective category already functions as an incentive for the development of such new types of business, and as a result there is no need to regulate such free riding by law.

2) Distinction between incentive-support regulation and incentive-creation regulation

(i) Incentive-support regulations

One method of regulation involves the reliance on the effects of the de facto incentives already existing in the marketplace, even if regulation by law is required. Only in exceptional circumstances where the market-based incentives do not function automatically do we use the law to assist with the recovery of such lost autonomy (incentive-support regulations).

The immediate task of the incentive-support regulation is to assist in the recovery of market autonomy and guide the development of innovation. We can, to a certain extent, disregard the issue of which innovations we should protect as it is possible to rely on the autonomy of the market to decide this issue. One of the most typical examples is the regulation of the use of symbols, which does not regulate the act of using innovations, and therefore can disregard the quality of which goods or businesses are being maintained or improved. Under the regulation on imitations of the trade dress of goods or the regulation on the misappropriation of trade secrets, it is also possible to prohibit the act of undermining incentives without a thorough investigation into the creative value of the goods or the value of information which is to be kept confidential. In this case, the kind of innovations which should actually be produced is determined by the market as a result of the gathering of comparative information by the respective developers of innovations as to the benefit to be gained from the innovations under the protection of the incentive-supported regulation and the cost expected to be required for the development of said innovations.

(ii) Incentive-creation regulation

On the other hand, there are cases where an intervention to establish a system to artificially create incentives for the development of innovation is considered necessary if the incentives already existing in the market are deemed to be insufficient.

While it is not possible to prevent free riding from occurring without the intervention of the law, if the innovation takes the form of information which is difficult to control and keep confidential, then the free riders who have acquired the information at zero cost will be in a more advantageous position than the developers of the information. If developers who bear the cost necessary to produce information/innovation are not able to fully enjoy the social benefits which should accrue from their innovations, there is the risk that developers will conduct an internal analysis of the cost and benefit of producing the information/innovation, and as a result the amount produced will not be to the socially optimal outcome (i.e. there will be insufficient investment).

One of the means to counteract this problem is to establish a system whereby innovators (artists, inventors, etc.) are given cash incentives through tax breaks, and various other alternatives. The problem with this proposal, however, is that such an attempt to encourage desirable production of information might end up in vain if there becomes an over-reliance on an artificial decision making process by a centralized authority whose role is to determine the appropriate distribution and amount of the cash incentives. This is because it is considered extremely difficult for a single centralized authority to properly assess and decide to which information/innovation the cash incentives should be granted, and how much the grant should be for, without involving the market. In order to solve this problem, there is an incentive-creation intellectual property law regulation system, which for the purpose of introducing the market principal into the decision of compensation to reward developers of information, artificially establishes a right on the part of the producer of the information/innovation to prohibit a third party from using the information/innovation without their permission. This process thereby allows producers of the information an opportunity to decide whether to make a profit by either exclusively taking advantage of the market's need for the use of the information/innovation by themselves, or whether to grant a license to a third party thereby allowing the

third party the right to use the information/innovation in the marketplace (presumably in exchange for compensation). Even under the incentive-creation regulation, the only significant difference is that it is the end-user who pays the compensation, even though the decision regarding the amount of compensation is still determined by the centralized authority (e.g. courts and other professional organizations), in cases where the incentive-creation intellectual property legal regulation grants a claim for compensation, but not for an injunction. However, there is still the possibility that the amount of compensation can be determined between the parties without the legal system, due to the deterrence caused by the difference in the compensation granted by the authorities (in this case, the courts) and the cost for procedures required to extract said compensation.

While information is more or less by its nature public property, and can be accessed by many people simultaneously (in contrast to a scarce object such as property, the marginal social cost for the use of information by an additional user is almost zero), to establish a claim for an injunction to prevent free riding (the artificial creation of scarcity) will likely result in a deprivation to society as a whole regarding the full use and enjoyment which the information/innovation might otherwise afford (especially if it is difficult for the parties to reach an agreement between themselves over the use of the information). In particular, the incentive-creation regulation system is more likely than the incentive-support regulation system to bind the use of innovations by those other than the right holder, thus rendering relatively high risk that the excessive protection of the right holder will decrease the overall benefit to society as a whole. Therefore, it becomes essential to compare the benefits accruing to the (future) society by allowing the claim for injunctions and encouraging the development of innovations with the cost accruing to the (current) society as a result of the restriction on the use of innovations. Thus, under the incentive-creation regulation system, we have to artificially determine what kind of innovation we wish to protect. As an example of such criteria, it is a general requirement that an invention be useful, utilize a law of nature, and be novel and unobvious. If the court is deemed an inappropriate institution to conduct an examination into these criteria, then the intervention of the Patent Office or another professional organization will be required. However, if such an artificial decision by the authorities, not the marketplace, comes to be involved in the selection of innovations, then the security of the system supporting socially desirable outcomes would be decreased even if the decision on

the amount of compensation can still be made by the marketplace. Thus, if a professional organization is to be established, the cost for the establishment and management of such an organization would be high.

It is our conclusion that the incentive-creation intellectual property law system should be adopted only where the benefit from the prior market entry, reputation, or other incentives actually existing in the market is not sufficient, and should be adopted only for those innovations for which it is considered necessary to create incentives in spite of the burden of various social costs. In addition, even if the incentive-creation regulation is adopted, it is still desirable to make efforts, even more than when the incentive-support regulation is adopted, not to excessively restrict the use of innovations, for example, by the requirement of the inventive step under the Patent Law, denial of the protection of ideas under the Copyright Law, or other similar conditions to limit the subject of protection or limit the effective period of rights. Moreover, we should also devise a means to minimize the distortion caused by the decisions of the centralized authority as much as possible. One example of such means is that the requirement of works of creativity to be protected as copyrights should be different from the requirement for other rights under the Copyright Law which deals with cultures that lack the generally applicable standards, such as technological efficiency, etc. Although it is possible to expect the Patent Office or the courts to render technical judgments as to the requirement of novelty or inventiveness (creativity which is not so easily achieved) at the time of granting the patent or design rights so that the grant of patent or design rights does not prevent the technological progress, the Patent Office or the courts would likely be unable to appropriately assess whether the relevant invention or design would actually be valuable to the market. Accordingly, such assessments should not be made at the stage of the granting of rights, but rather should be made by the marketplace instead.

3. Perspective of the Functional Intellectual Property Law (Division of Roles Between Parties Rendering Legal Decisions and the Selection of the Method of Regulation)

1) Division of roles between parties rendering legal decisions

Discussed above is the idea that a perspective of the division of roles between the marketplace and the law is important in the establish-

ment and interpretation of the intellectual property law system. However, even once it is determined that the decision is to be made by law, the intellectual property law system is not yet completed. This is because we need to consider the issue of by whom and under which procedures such decisions should be rendered.

For example, there is the issue of to what extent the courts are capable of judging whether there is any reason for the invalidation of a patent in a patent infringement case where a perspective of the division of roles between the courts in infringement cases and the appeal examination by the Patent Office in cases of demand for invalidation trial (and the courts in charge of cases for revocation of the appeal decisions) serves as the key to solve the issue. Also, the issue of how much the effect of the Law for the Prevention of Unfair Competition or the protection of copyrights extends to the shape of articles of utility (such as the shape of furniture or the appearance of automobiles) is exactly a matter for the division of roles, that is, whether the judgment of the Patent Office, a professional organization, should intervene by requiring registration (design registration) for rights to be effective, or whether rights holders should be allowed to directly claim protection from the courts. Furthermore, if we raise the question of when and how much either the Patent Office or the Fair Trade Commission should govern the act of disrupting the market, productive discussions can be made over the issue of how much the regulation of the Anti-Monopoly Law extends over the exercise of patent rights.

2) Selection of the method of regulation, regulation on acts, and property rights (regulation system)

(i) Applying existing legal systems:

Regardless of whether we choose an incentive-support regulation or the incentive-creation regulation, there are several optional methods for the establishment of a legal system.

Option 1: The first option is the method whereby no special legal system is established even if regulation by law is required. Even under such a system, the rights over physical resources (ownership or other similar rights) may lead to a restriction on their use and then compensation may be required therefor. For example, museums and art galleries

already adopt a system whereby people cannot enjoy works, even though some of them are not copyrighted or the period of copyright has already expired, without paying compensation in the form of admission charges. Even in cases where such a system does not work, there is an alternative to treating individual cases based on tort theory under Article 709 of the Civil Code. This method can be adopted in cases, for example, where the act of having a special program and broadcasting a fireworks show without the permission of the promoter is deemed to constitute a tort under Article 709 of the Civil Code in order to protect the right to exclusively broadcast the fireworks show which cannot otherwise be hidden from view.

Option 2: The second option is to directly and legally regulate certain acts (regulation on acts). The merit of this system is that the types of illegal acts are made clear and it ensures more legal stability than if regulated under the general provisions of Article 709 of the Civil Code. Another essential advantage is that it is possible to stipulate the claim for an injunction which is not allowed under the conventional interpretation of Article 709 of the Civil Code. In any case, this method is adopted where it is possible to clearly identify certain illegal acts on a regular basis. Examples of this method are the regulation on imitations of the trade dress of goods, on the acts of misappropriation of trade secrets, on the acts of using goods or other symbols, thereby causing confusion with another person's goods or business, or on the acts of unfair use of well-known trademarks under the Law for the Prevention of Unfair Competition.

Option 3: The last option is to regulate acts by establishing property rights. This is the essence of the intellectual property right system. Although there used to be the notion that the gap between the Law for the Prevention of Unfair Competition (regulation of acts) and the intellectual property rights (property rights) was a large one, there is no substantial difference between the intellectual property rights and the regulations on acts because even the intellectual property rights prohibit certain acts. Although the advantage for treating rights over intellectual properties as property rights varies by the type of method of establishing the system, what is common at least to both systems is that the registration system enables the assignment and then various means for financing the property right. Therefore, this approach is adopted where it is necessary to protect rights holders despite the burden of the social cost of registra-

tion (e.g., copyrights). In addition, the advantage of requiring registration for the rights to become effective lies in the fact that whether or not the rights exist can be made clear (e.g., utility model rights). Furthermore, if the system were such that the registration would be effective only after an examination is adopted, there is another advantage in that what should be protected as rights and what should not be protected as such can be identified in advance (e.g., patent rights, design rights, trademark rights). The burden of the courts would be mitigated by establishing an examination organization other than the courts (e.g., the Patent Office), which would be expected to ensure a consistent and professional judgment.

(ii) Selection of acts to be regulated

Ownership, which affects the right to prohibit physical access to physical resources, legally confirms the fact that only a single person can physically access such resources at one time. Under the intellectual property laws, however, the original purpose of artificially establishing the right over the act of using what can be accessed by more than one person at the same time is to avoid the lack of incentives for the development of innovations for the purpose of the development of culture and industry. Therefore, either by regulation or by registration (property right), is it possible to select the type of acts to be regulated depending on the purpose of the policy or the nature of the intellectual properties.

For example, even with respect to the act of using creative works, the act of reproduction of those works is subject to a copyright, while the act of reading them is not. There can be no argument that any and all acts of using works should be covered by the prohibition right from the beginning since such works are available to the public, and in that context, which act should be prohibited can be freely determined depending on the purpose of the system. One example is that although the effect of the right does not extend to the assignment of legal reproductions of recorded music, even if such assignment is made available to the public, the law (Article 26-2 of the Copyright Law) has been amended in such a manner that the effect of the copyrights do extend to the act of lending to the public upon the development of the record rental business.

However, there is some limit even if it can be determined freely, and it is not allowed to excessively restrict the liberty of the individual, even

though it is necessary for the incentives for the development of innovations. Such a viewpoint is one of the leading factors supporting the view that copyright does not extend to the act of reading or reproducing the material for private use.

(iii) Prohibition rights and compensation rights

Unlike ownership, which is the right over the use of a physical resource, the physical possession of which is limited to a single person, it is not always necessary to establish the exclusive right by prohibition under the intellectual property laws which regulate acts that can be made by more than one person at the same time. Therefore, it is possible to adopt not only the prohibition right but also the compensation right, which allows for use without permission of the right holders while requiring users to pay compensation, depending on the purpose and nature of the subject act, regardless of whether it is a type of regulating acts or property rights (registration system); the right is not generally called "property right" in the case where the compensation right and the registration system are combined. (However, this is a matter of terminology).

Under the current laws, examples can be found in a part of the rights of authors or any other creative artist. The statutory arbitration (saitei) system for patent rights or copyrights can be regarded as a system of such kind although certain procedures are required. Some of the rights for compensation do not allow for rights of individual rights holders to be exercised, and the integrated processing by a rights management organization is required in some cases.

Generally speaking, so long as it would require costs of a certain level to cause a third party organization to intervene in the decision of the amount of compensation, it is desirable to adopt a prohibition right and rely on the decision of the market if parties are expected to reach an agreement as a result of negotiations since the cost for trading is relatively low. However, if there occurs in the external economy any act whereby any person other than the original parties gains a benefit from the relevant use (e.g., Article 33 of the Copyright Law regarding the reproduction of school textbooks, etc.), it will be necessary to allow a wide range of use and ensure incentives for the developers of innovations by adopting a compensation right. Furthermore, since the market fails to render decisions when either party has reached a monopolistic status (e.g.,

application of Article 93 of the Patent Law regarding the compulsory license for public interest through statutory arbitration) or where negotiation is not possible since the right holder is unknown or for any other reason (e.g., Article 67, Paragraph 1 of the Copyright Law regarding the statutory arbitration decision allows use of the copyrighted material where it is impossible to contact the copyright holder), a third party organization should intervene in the decision of whether or not the use should be allowed or in the decision regarding the amount of compensation in such cases. Moreover, if there are too many parties and it is even difficult to bring them to the negotiating table, it is not enough just to adopt the compensation right, and the integrated processing is also required (e.g., Article 104-2 of the Copyright Law regarding the right to claim compensation for private recording; Article 95, Paragraph 4, Article 95-2, Paragraph 4, Article 97, Paragraph 3 and Article 97-2, Paragraph 4 of the Copyright Law regarding the right to secondary use fees for the broadcast of, or other similar acts involving, commercial phonograms of performers and producers of phonograms, and regarding the right to claim for compensation for the lending of commercial phonograms going beyond the period). In addition, the more people who can conduct the act of use to be restricted by rights (e.g., reproduction of works), the greater the loss will be in the social benefit due to the increased regulation and the higher degree of restrictions on the individual liberty. Accordingly, even if it is necessary to establish rights to secure incentives for the development of innovations, it is desirable to adopt the compensation right whose degree of restriction on use is relatively lower than the prohibition right.

4. Perspective of Liberty Controlled Intellectual Property Law (Securing of the Territory of Liberty)

1) Liberty under intellectual property laws

The above discussions focused on methods for establishing a system of intellectual property laws on the basis of two assumptions: 1) that such laws exist to restrain excessive free riding; and 2) that such laws must create appropriate incentives for the development of inventions, works or other intellectual property for the benefit of industry and culture. In other words, it is assumed that intellectual property laws are designed to complement the market despite the market's efficiency. However, to regulate free riding one must inevitably restrict the liberty of individuals,

and, in some cases, this deprivation of liberty cannot be justified only by reference to the efficiency of the market.

Unlike the concept of ownership, which restricts access to physical resources that may only be used by a single person at any one time, intellectual property laws constitute a technique of law that artificially establishes restrictions upon the use of a resource that may be physically accessed by more than one person at a time. Therefore, the degree of restriction on the liberty of individuals is relatively high under intellectual property laws. As such, these laws must be founded upon a theory of positive incentives in order to not excessively restrict the liberty of individuals. By way of example, patent protection extends only to inventions that are worked as businesses (Article 68 of the Patent Law), and copyright restrictions do not extend to reproductions for private use. In such cases, the two values (the granting of incentives and the liberty of individuals) have been balanced in order to assess the extent to which the interests of right holders should be prioritized, and the extent to which the liberty of private individuals should be secured. It is worth noting that restrictions on the liberty of individuals cannot be helped to a certain extent, so long as the object of the restriction was created by an individual with an interest in maintaining rights over his creation. Arguments such as those above have led us to compromises where, for example, the act of reproducing works is restricted by copyright while people are completely free to read such works.

2) The theory of natural rights and the theory of incentives

The theory of natural rights or the theory of justice (that people should be able to claim rights over their own intellectual creations), as well as the theory of incentives (that regulation is necessary to appropriately encourage the development of innovations) are often proposed as the foundation for restrictions upon the use of intellectual property.

However, some people doubt that the mere proposition that a person created something can serve as a positive foundation to regulate the liberty of many other persons. When factors other than efficiency, such as justice and fairness, are taken into account in the creation of a legal system, it does not immediately lead us to the theory for natural rights. Rather, when we take account of justice and fairness, we cannot focus only on the rights of the creator without considering whether these rights

restrict the liberty of individuals other than the creator. If the system of restricting the use of intellectual property by persons other than the creators of such property (in order to provide incentives for the development of achievements) is judged to be an effective system, the next issue to resolve is whether it is in the interests of justice to restrict the liberty of others for this purpose. It is inappropriate to consider, as a positive foundation for regulation, a proposition that forces people to tolerate a certain extent of inconvenience for the sole reason that the regulated property is the creation of an individual rights-holder. There is a large gap between the idea of giving consideration to the proposition that they are creations by persons as proposed herein (perspective of liberty controlling intellectual property law), and the idea that some sort of right should be granted to creators even if it is not necessary for the granting of incentives.

What we need to note in this case is that it is possible to find a foundation in the theory of incentives even if we do not adopt the assumption that the establishment of an intellectual property law system causes an increase in benefits to all of society. Since the intellectual property law regime restricts the use of intellectual property by all persons other than the creator it is difficult to estimate the lost benefits of this use for each person, and it might appear impossible to conclude that the establishment of such restrictions by intellectual property laws causes the benefit for the whole society to increase (at least in terms of the Pareto optimum). However, it should be noted that it is still possible for society to make a democratic decision that incentives should be granted for the development of innovations by the means of an intellectual property law regime. For that purpose, theories of natural rights, justice or liberty will be necessary to define the territory that cannot be invaded even by such a democratic decision, by finding, for example, that the rights of the creator may not be abrogated beyond a certain point, or conversely, that the liberty of persons other than the creator may not be restricted beyond a certain point.

Accordingly, for the purpose of proposing a theory of interpretation of intellectual property laws, we need to clarify the intent of the current laws. If the positive foundation of the current system of intellectual property laws lies in the democratic decision to protect the rights of creators based on a theory of incentives, then we must assess what kind of system is intended to be established by such democratic decision under the structure of the current laws. On the other hand, with regard to the territory in which a value to be achieved by laws (e.g., securing of the liberty of act of private persons) seems to exist, the theory of interpretation should be developed by focusing on the value to be protected, rather than on the structure of the current laws.

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