

Several Issues Concerning the Japanese Design Law

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I. What is the Issue?

THIS REPORT does not deal with the issue of how to interpret our domestic laws, namely, whether typefaces and certain toy shapes are protected by the design law, whether they are protected by the copyright law, or whether they are protected by any other kind of laws. Rather, what I intend to discuss is the issue of whether design law is necessary in the first place, and, more strictly speaking, whether the existence of design rights deserves its reason for being to serve a useful social function. It goes without saying that the issue we lawyers are facing is to interpret provisions of currently existing laws. However, it is not appropriate to argue in depth at this kind of international academic conference how we should interpret certain provisions of design law of a certain country. When we devote ourselves in this kind of technical discussion too deeply, we are likely to neglect our efforts to examine the fundamental problem, namely, for what purpose the design law and other intellectual property laws exist. As researchers or as educators, we always have to justify intellectual property rights, and we must not forget that the system is certainly not self-evident.

II. Pro-patent policies in Japan

In Japan today, however, it is certainly not fashionable to cast a doubt upon justification of intellectual property rights. According to general understanding, this is because the Japanese government has declared it will adopt pro-patent policies. It is not only the government, though. But the Japanese people, who suffered a recession for a period of ten years after the bursting of the so-called bubble economy, regard strengthening intellectual property rights as a last resort to revive the economy.

What's more, for the Junichiro Koizumi Administration, which basically employs a retrenchment policy under the strong influence of the Ministry of

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Treasury, pro-patent policies are attractive because they have a great promotional effect, yet require little fiscal expenditure.

It is not necessarily clear in Japan as well as in the United States what pro-patent policies are. However, various government agencies, industry, researchers, and practitioners share their views, as seen in the following policy proposals:

- To shorten the period of examination at the JPO (Japan Patent Office)
- To speed up lawsuits
- To establish a court that will exclusively deal with disputes concerning intellectual property rights
- To enforce tight import controls against piracy
- To reinforce remedies for infringement (for example, higher compensation for damages)
- To develop lawyers with expertise in intellectual property rights
- To establish higher education institutions capable of providing courses on intellectual property rights

Many of these proposals will probably be enacted into law during the year of 2004. Such a move is made in remarkably high pitch in terms of Japan's legislature, which has a reputation for slow-moving activities. In such an environment, it is unlikely that a great deal of support will be gathered for the attempt to reconsider the essential need for an intellectual property rights system.

III. The unique position of design rights

In Japan today at least, the proposal to abolish patent rights and copyrights (or, to substantially restrict them) is unlikely to be seriously examined even in the forum of pure academia. However, if we consider the problem of how to justify intellectual property rights, the design law is in a favorable position compared with other intellectual property laws such as the patent law and the copyright law. Patent laws and copyright laws have been enacted in almost all countries, where provisions have been strongly restricted by multilateral conventions. Therefore the legislatures of various countries are allowed little discretion. Countries that engage in a considerable amount of trade cannot help establishing patent laws and copyright laws at any rate. Otherwise, domestic industries must put up with their being placed at a disadvantage unilaterally, compared with their counterparts in other countries. Assuming that any government is trying to protect its own domestic industries, (and there is hardly a bold or

irresponsible government that would not try to do so) it simply, does not have time to take for any philosophical debate on why laws concerning intellectual property rights are necessary.

However, the situation is different in the case of designs. Article 5, clause 5 of the Paris Convention and Article 25 of the TRIPS Agreement oblige signatory countries to protect designs. Nevertheless, as the designs that are supposed to be protected are not defined, it appears that the question of what range of designs should be subject to protection has been left to the discretion of the legislature of each country. Furthermore, the economic significance of design rights is so small that it cannot be compared with that of patent rights. Therefore, we are allowed to enjoy the intellectual experiment of considering what the ideal design law would be.

IV. Summary of the Japanese design law

Before making a technical argument specifically, it would be appropriate to take a general view of the Japanese design law. In general, Article 1 of Japanese laws, which were enacted after the Second World War, prescribe the objective of each law. According to Article 1 of the designs law, the objective is “to encourage creation of designs and thereby contribute to the development of industry, by providing for the protection and use of designs”. What “the development of industry” means is not specified at all. Does it mean the strengthening of international competitiveness, economic growth, the improvement of labor productivity, the optimal allocation of resources, or all of these things? At least, it is clear that the Japanese design law has been enacted as part of industrial policy and that it has not been enacted for the purpose of promoting culture. Moreover, this fact provides advance notice for the problem I would like to raise in this report, whether design law is necessary? and whether the approach from economics is justifiable?

Designs that are protected by the Japanese Design Law are defined as follows: “those designs in an article which are in the form of configurations, patterns and coloring, either individually or in combinations thereof, and which may be considered to have aesthetic visual beauty” (Article 2, clause 1). Of course, the following requirements are provided for a design right to be granted: first, it must be capable of being used for industrial purposes, in other words, mass production must be available; second, the design must exhibit novelty; and third, it must be something that cannot be easily created from an existing design (Article 3, clause 1 and clause 2).

For a design to be granted a design right, you have to make an application to the JPO and have the design examined by the examination board (Article 16). The examination board examines whether any requirements for the granting of a design right is missing (Article 17). A design right is generated by its registration (Article 20). The design right

continues to exist for 15 years from the date of registration (Article 23). Unlike patent rights, the duration is not reckoned from the date of application. The holder of a design right enjoys its exclusive right to use the registered design or a design that resembles it for the purpose of business (Article 23).

V. Reconsideration of incentive theory

Why the reason for existence is justified for design rights, and other intellectual property rights? The most typical explanation has been, and still is, the incentive theory. Intellectual property rights are granted for your invention or creation. Once you have a right, you deserve to receive monetary compensation from people who want to utilize your invention or creation. What do you think about this? You must feel an increasing desire to invent or create. This is how it works. For those who prefer economics terminology, the theory may be explained as follows, although this is fundamentally same as the former explanation. Any invention or creation is intangible, and it is physically impossible for owners to exploit the idea by their sole efforts, as could be done with land or tangible entities. Therefore, if legal rights are not granted over inventions or creations, they could easily be spilled over to competitors and be used free of charge as a result. Under such circumstances, the incentive to invent or create will be lost and investment in inventions and creations will be underestimated as compared to what society desires. The intellectual property rights system prevents such underinvestment.

We can easily believe in this generalized incentive theory, especially if real examples are given, for example, Edison and Bill Gates who became millionaires through inventions or creations. However, is this theory complete?

Criticism will be presented from two aspects. The first criticism is whether the intellectual property rights system is actually generating incentives. The second is, assuming that the system generates incentives, whether investment in inventions or creations is being carried out to the extent that is socially desirable, thanks to the intellectual property rights system.

Does the intellectual property rights system produce incentives?

With regard to the first, as long as other conditions remain the same, incentives for inventions or designs must be strengthened when intellectual property rights exist than when they do not. The problem is whether those incentives are strong enough. All intellectual property rights, including design rights, produce social costs that would not occur if the rights did not exist. The easiest way to see this is to consider the cost to maintain the government agencies and courts, both of which are necessary for its

operation. Moreover, since intellectual property rights confer, so-called rent, it cannot avoid a reduction in consumer surplus and these costs will be borne by consumers. Therefore, it appears that intellectual property rights are not justified if they cannot produce strong enough incentives to overcome such costs.

Needless to say, not every invention or design is granted intellectual property rights. If any requirement mentioned previously is not satisfied, a right will not be granted. Even when a right is granted, costs are incurred in the form of various charges and registration fees, necessary for it being granted and for its maintenance. In addition, if a lawsuit is brought, other costs will arise, such as attorney's fee. Even if a right is granted and maintained, there is still no guarantee that products incorporating the relevant invention or design will produce profits. Moreover, even though companies invest in creations or designs, if a competitor is ahead of acquiring a right for any similar invention or design, the investment will be left just wasted. Taking into consideration these various risks, which would not occur if the intellectual property rights system did not exist, a company will invest in inventions and designs only when it can expect that these risks will be overcome by significant profits, which are uncertain no matter whether there is an intellectual property rights system or not.

Certainly, it is impossible to prevent inventions or designs from legitimately spilling over to competitors if property rights are not granted. It is clear that this fact will diminish incentives for inventions or designs to some extent. However, it is also unrealistic to expect that spilling over will occur unlimitedly, because there are also costs involved in copying the inventions or designs of others. In the case of inventions, one needs to analyze other's invention and to rebuild a suitable production line. Also, even though a company succeeds in producing products by copying an invention of others, if that company cannot produce the products at prices lower than the company that originally invented the products, it will not be able to win customers. Since free-riders who copy the inventions of others do not pay any development costs themselves (more precisely, the development costs deducted by the costs required for copying), it is true that they can gain a competitive advantage. However, this advantage can be gained only when other conditions remain the same. Generally speaking, a company engages in establishing its client-base, know-hows and developing production lines in tandem with their technology development. Only when the best combination of these activities is created can high profits be guaranteed, which is a difficult condition for free-riders who only copy the inventions of others to satisfy.

Of course, there are certain conditions applying to designs which are different from inventions. Since a design is just an external appearance of a product, analysis is not required, same as in the case of inventions when

copying. It is sufficient if any shape, pattern and colour is simply copied. However, because of this feature, even consumers with no specific knowledge of particular products can easily see that the designs have been copied, which must be a significant cost for free-riders to bear. For example, if consumers found out that Toyota had copied Honda's designs for a certain vehicle, Toyota's reputation would be completely destroyed.

Moreover, even if an intellectual property right is not granted for an invention or design, investment in development still has to be carried out. The ultimate objective of investment is to gain profits and not the acquisition of the right itself. Acquisition of rights is just a means of gaining profits. Therefore, when profits are expected even without any right being granted, a company will continue to invest in inventions or designs.

Of course, in this case, inventions or designs will be spilled over to competitors sooner or later. Therefore, even though a company will continue to invest, investment is likely to be limited to inventions or designs, which the company expects to gain prompt returns until the invention or design will be spilled over to competitors, for example, those which are expected to rapidly become outdated. In other words, it can be expected there will be fewer basic patents that require a significant amount of investment or innovative designs.

However, this does not mean that inventions or designs that are often described as "great" or "innovative" will not appear anymore. It seems that the incentive structure for exceptionally talented creators is different from that for ordinary persons (like me, although I cannot tell how different they are). Such talented people can create things for reasons incomprehensible to ordinary persons even without any right being granted, in other words, without monetary incentive. Mozart did not stop composing operas even though he was not protected by copyright.

As a result, even if it is assumed that no rights will be granted over inventions or designs, a company will still invest in them. Great inventions, discoveries and totally innovative designs will keep being generated. Rather, what is highly likely to be vanished is an invention or design with medium-level distinctiveness.

However, in the case where intellectual property rights exist, a company tends to invest in developing mediocre technologies and designs, as compared to the case where intellectual property rights do not exist. Assuming that intellectual property rights did not exist, a company would probably completely copy whatever inventions and designs their competitors hold. Otherwise, they may try to develop technologies and designs that could not be copied literally by anyone (I mean, if any, ever). On the other hand, in the case where intellectual property rights exist, a company ends up choosing intermediate alternatives to develop technologies and designs, which are to some extent (in some cases only just a little bit)

superior to those possessed by their competitors and acquire rights for those technologies and designs.

Will a socially desirable level of investment be carried out?

As I have already pointed out, as long as patent rights and design rights are exclusive rights, it is impossible to avoid an evil effect, that is, reduction in consumer surplus, which a monopoly generally produces.

In addition, which is all too obvious, other evil effects are likely to occur as well.

Firstly, since legal protection is given to an invention or design, a company is likely to over invest. To explain why, economists provide following explanation. When several companies are competing each other over the development of a certain technology, if a company increases its investment in technology development, the company increases its probability to obtain the patent right for that technology, that is, the probability of being able to monopolize that technology will increase. At the same time, the probability for the competitor to obtain the patent right will decrease because only one company will be granted a patent right for one technology. However, because a company makes decisions on the amount they will invest without considering this zero-sum probability of acquiring patent rights, over-investment occurs.

Such over-investment is likely to occur equally in the case of inventions and in the case of designs. In the case of designs, it can be naturally said that the absolute amount of investment in development will probably be so small that it is incomparable with that in the case of inventions. Nevertheless, from consumers' viewpoint, a design means a trivial difference in shape, pattern, or colour. For that reason alone, every company has to do its best to thoroughly conceal the process of design development from its competitors. Thus, it can be said that too little dissemination of information tends to encourage over-investment.

Secondly, in the case of technology development, it is said that any investment for the purpose of acquiring defensive patent rights to prevent competitors from development activities, or for the purpose of bypassing a competitor's patent right appears merely wasteful in social terms. In the case of designs, it is unlikely that a company will actually invest in development of a design to bypass a competitor's design rights. However, a company may invest for the former purpose, which is to prevent other competitors from developing design or from imitating it.

VI. Policy implications

The system to protect intellectual property rights involving patent rights and design rights may or may not be an incentive for investment. In particular, it is not sufficiently evident whether there is any strong enough

incentive for investment to justify the existence of intellectual property rights. However, there may be a difference between inventions and designs, and there may be a difference depending on the field of industries. For instance, in the case of the pharmaceutical industry, the existence of a patent right is obviously a very powerful incentive for investment, but in the case of the shipbuilding industry, it may not be such a strong incentive. In the case of the ornament industry, the existence of a design right is a strong incentive for investment, but in the aircraft manufacturing industry, it may not be such a powerful one. What can be said for the time being is that we cannot refute the fact that the intellectual property right system provides incentives for investment.

Some people may hold the view that the provisions of current patent rights and design rights are not strong enough to provide an incentive for investment. Yet, both patent rights and design rights grant a monopolistic licensing right to the rightholder, and it would be technically difficult to strengthen the provisions of such rights further. Even if possible, this might merely lead to a greater abuse of monopolies.

Instead, we probably need to consider what we should do to ensure that patent rights and design rights do not induce overinvestment and wasteful investment.

First of all, a lack of information, which is the cause of over-investment, can only be rectified by the dissemination of information, but since there is of course no incentive for a company to voluntarily disclose information, the only measure is to legally force a company to do this in return for granting a right for legal protection. The rationale of the public disclosure of patent applications under the patent law can probably be explained from this viewpoint. In the case of designs, as a design is the external appearance of a product, it is easier to imitate than a patent, and thus the Japanese Design Law permits a design to be kept confidential for three years after design registration (Article 14). In order to prevent over-investment, we should probably consider the alternative to shorten this period.

Second, enlarging the scope of protection would probably be an effective measure to control wasteful investment for the purpose of bypassing existing patent rights or design rights of competitors or of preventing competitors from acquiring such rights.

Finally, to control abuses of monopolies, it deserves to consider shortening the duration of rights. The longer the duration of a right, the greater the amount of monopolistic profit the rightholder expects from its acquisition as of right. As a result, in licensing negotiations, the rightholder can make an aggressive attitude; in other words, as the rightholder demands a higher amount of royalties, the probability of entering a licensing agreement diminishes to that extent. It means that an undesirable situation will arise from the perspective of the consumer where there will be fewer

companies that will manufacture products using the technology and the designs concerned. Accordingly, to provide an example, the recent enactment of legislation in various countries to extend the duration of copyright was a mistaken choice.