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## Protection of Trade Secret in Japan

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The topic given to me today is protection of trade secret in Japan. This topic has a wide range of issues within its scope, but due to the limited time, I won't be able to go into details of each issue. Instead, what I am going to try is to draw a broad picture of current situations surrounding trade secret protection in our country. I think, by the end of this speech, you have impression that we share a lot in common in this area.

### Slide (1)

First, I like to briefly touch on the history of protection of trade secret in Japan. As a matter of statutory protection, the most important law in this area is the Unfair Competition Prevention Law. From now, I refer this Law as "the Unfair Competition Law."

The Unfair Competition Law was enacted in 1934, but no provisions about trade secret. The Law was amended in 1990 to add civil provisions about infringement of trade secret. Driving forces of the amendment were such as increasing mobility of labor forces, growing demand from business sectors, developments of international trade negotiation.

In 2004, provisions of procedural protection, such as order to keep confidentiality, explicit authorization for closed trial session, were added to the Law in order to protect trade secret from being disclosed to competitors through court proceedings.

As to the criminal protection, the Japanese Government had been cautious to add criminal provisions to the Unfair Competition Law due to the potential tension with Constitutional rights including freedom to choose an occupation. However, criminal sanctions are introduced to the Law in 2003, and those provisions are reinforced in 2005.

### Slides (2)(3)

These slides show overview of legal structure to protect trade secret. Civil protection can be achieved by both contract and infringement liability. Civil protection is ensured by procedural provisions. Criminal sanctions may be imposed by the Unfair Competition Law and the Criminal Code.

### Slide (4)

Next slide is about recent case trend. Although we do not have any official statistics on trade secret disputes, scholars' researches indicate number of civil cases involving trade secret dispute has been increasing. In most of those cases, compensation and injunction are sought, claiming both infringement and breach of contract. Trade secret disputes often arise where an employee quits his or her company, and the company alleges the employee brings the trade secret out of the company.

As to the criminal enforcement, only a small number of cases have been tried in Japan.

### Slide (5)

So far, I have used the term "trade secret." But, trade secret is a magical phrase, sometimes causes a headache to judges. In other words, it is often difficult to decide the information before us falls within the definition of "trade secret."

Article 2 Paragraph 4 of the Unfair Competition Law defines the term "trade secret" as shown in the slide. "Trade secret shall mean technical or business information useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known."

This sentence can be broken down into 3 requirements, "to be kept secret," "information useful business" "not publicly known."

### Slide (6)

"To be kept secret" is the most frequently disputed requirement, and many precedents have been reported. It is a matter of fact-finding on a case-by-case basis and judges make decisions based on all relevant facts. However, it may be safe to say that courts generally place emphasis on two factors.

The first factor is whether and to what extent access to the information is restricted. For instance, does the document is kept in a locked cabinet? Or, do only designated employees know its password? Those are typical facts to be considered by courts.

Second factor is indication of confidentiality, in other words, whether a person who is not authorized to obtain or use the secret can recognize the information as “secret.” Sign of “confidential” or “highly confidential” on a document would be helpful to be admitted as “trade secret.”

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Second requirement is usefulness for business.

Our courts have interpreted the term “useful” generously, and have not required strict proof on the economic value of the information. So-called “negative information” such as failed test data is also considered as “useful for business.” Therefore, this requirement has functioned as excluding information against public order. Personal scandalous information, concealed data showing violation of environmental regulations are among its examples. In a case, the Tokyo District Court held that price lists used for bid-rigging did not meet this requirement.

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Third requirement is “not publicly known.”

One of contentious issues related to this requirement is information obtained by reverse engineering. In a case before the Osaka District Court, a defendant alleged that data regarding ceramic condenser at issue could be obtained by reverse engineering of plaintiff’s marketed products and therefore those data are publicly known. The district court did not agree with this allegation, holding that acquisition of the data took long-term analysis by highly skilled experts with a lot of expense.

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Once the information is found as “trade secret,” next question is whether the conduct is “infringement” or not.

The Unfair Competition Law specified 6 categories of “infringement.” Those are

very important provisions but somewhat complicated even in Japanese. I will try to simplify and explain one by one.

Let's suppose that company X kept trade secret, and employee Y who was not authorized to keep the secret, obtained the secret by improper methods. Such Y's conduct fell within Category A-1 infringement on the slide.

In this situation, if a third party Z received the secret from employee Y knowing at the time of the receipt that the secret was obtained by improper methods, such Z's conduct fell within Category A-2 infringement.

If the third party Z did not know that the secret was obtained by improper methods, but later Z became aware of the improper acquisition, and nevertheless used or disclosed the information, such Z's conduct fell within Category A-3 infringement.

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Category B assumes a situation where the employee Y was properly disclosed the trade secret by the Company X, but employee Y misused the secret.

Category B-1 is about the misuse of the secret by employee Y. Category B-2 is about third party Z's conduct to receive the secret from employee Y knowing the misuse.

Category B-3 is about the third party Z's conduct to receive the secret without knowing the misuse at the time of receipt but later became aware of the misuse and nevertheless used or disclosed the secret.

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One of the debated issues related to the definition of "infringement" is trade secret jointly developed by an employer and its employee. The essence of this issue is who has a right to use the jointly developed trade secret. In Japan, this issue is discussed as a question of Category B-1, whether such trade secret should be regarded as "disclosed by an employer to the employee." A view is that such trade secret originally belongs to the employer, therefore the secret should be regarded as disclosed to the employee even if the employee takes a part of the development. Opposing view is that such trade secret is shared by both the employer and employee, therefore the secret is not "disclosed" by the employer, and this issue should be addressed by breach of contract.

In relation to this issue, an interesting case was before our Court. In this case, one of the issues was whether a retailer could disclose wholesale prices of goods to customers in order to show customers that the prices of retailer's products were very cheap. The wholesaler argued that the prices were its trade secret. The intellectual Property High Court did not agree with the defendant's argument holding that the prices between the retailer and wholesaler were shared by both, therefore the information was not the one "disclosed by the wholesaler."

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The Unfair Competition Law explicitly allows as remedies, first, injunction, second, compensation for damages caused by the infringement, third, necessary measures to restore business credibility.

Term and scope of injunction sometimes became at issue. Economic value of trade secret can be lost in a short term. In Japan, there are discussions whether judges may limit the duration of injunction for a certain period without explicit statutory authority.

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As I mentioned earlier, breach of confidentiality agreement is as important as infringement liability. Scope of "confidential information" agreed by parties may differ from scope of "trade secret" defined by the Unfair Competition Law. Courts interpret terms and conditions of agreements and may allow injunction and compensation if they find breach of contract.

Since proof of breach of confidentiality agreement is difficult, an employment agreement often contains non-compete provision which requires the employee not to engage in competing business with the employer even after quitting the company. This provision, however, may cause potential conflict with constitutional rights including freedom to choose an occupation. Therefore, courts carefully review terms of the agreement and determine whether the non-compete provision should be invalidated as against public order. Majority view among scholars is, first, non-compete obligation should be explicitly written in the agreement, second, even if the obligation is written, term, area and prohibited actions should be limited to a reasonable extent, third, fair compensation should be paid by the employer. Courts have taken more flexible approach based on the facts of each case.

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As I mentioned earlier, criminal sanction provisions have been established in the Unfair Competition Law. The scope of criminally punishable conducts is much more limited than those subject to civil liability. The Unfair Competition Law specifies conducts to be punished in Article 21. Those provisions are complicated, and I won't go into details today.

The punishment for individuals is up to 5 years imprisonment. Companies like the third party Z in previous example, may be fined up to 150 million yen. Also, even if punishable conducts take place outside Japan, those conducts can be punished as far as the trade secret concerned is kept in our country.

Criminal prosecution has not been active so far in Japan. Possible reasons are listed in the slide. Trade secret disputes are generally regarded as civil dispute by nature and complaints by victims are necessary to pursue prosecution. Disputes are often settled by parties and the complaint is withdrawn. Also, scope of criminal conducts is limited, and prosecutors need to prove subjective requirements. For those reasons, prosecutors seem to prefer prosecuting trade secret infringement by way of traditional crimes like theft, embezzlement, fraud or breach of trust. However, this trend may change due to the 2005 amendment of the Unfair Competition Law.

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That's the end of my presentation. Thank you for your kind attention.

