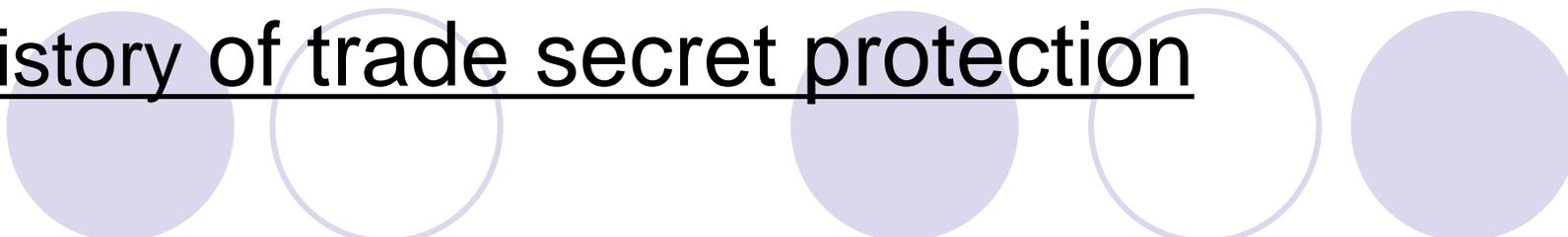


Protection of Trade Secret in Japan

Tatsubumi Sato
Judge, Intellectual Property High Court of Japan

September 2006

History of trade secret protection



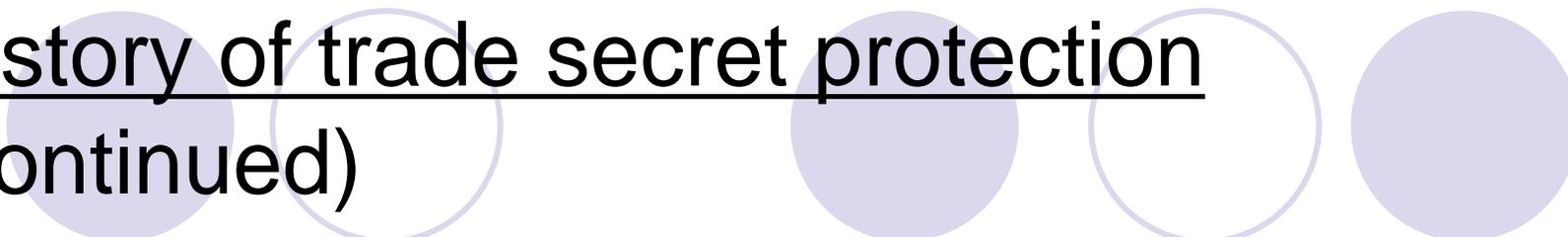
1934 Enactment of Unfair Competition Prevention Law

No provision regarding trade secret. Trade secret had been protected by general laws.

1990 Addition of trade secret provisions (civil)

- Increased mobility in labor market
- Growing importance of trade secret for business
- Multi-lateral trade negotiations

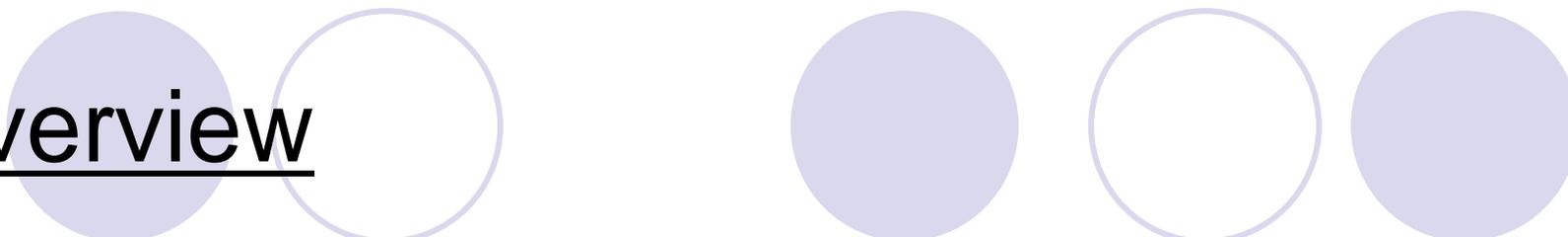
History of trade secret protection (continued)



2003 Addition of criminal sanction provisions

2004 Addition of provision regarding procedural protection (order to keep confidentiality, closed trial session)

2005 Reinforcement of criminal sanction



Overview

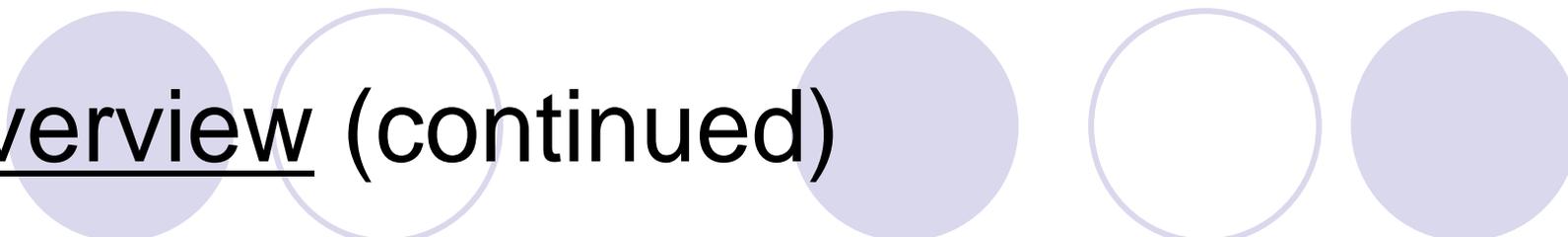
1. Civil protection

1-1 infringement of trade secret

- Unfair Competition Prevention Law
- Civil Code (Art. 709)
- Commercial Code

1-2 Contract

- Civil Code



Overview (continued)

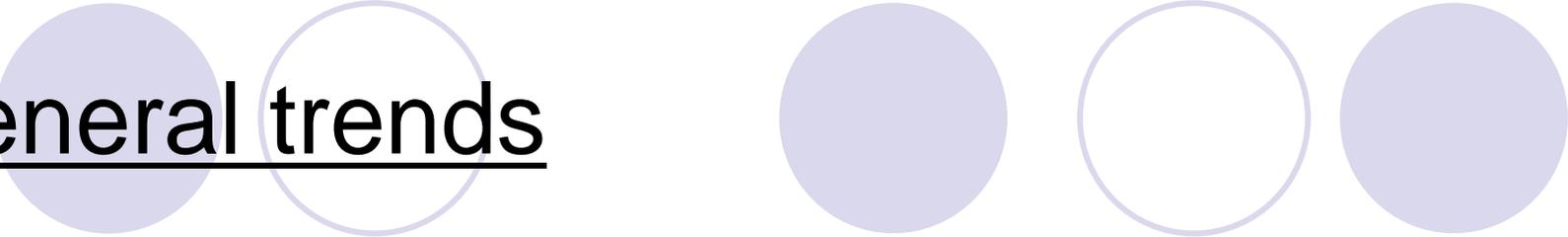
1-3 Procedural protection

- Unfair Competition Prevention Law

2. Criminal Sanction

- Unfair Competition Prevention Law
- Criminal Code

General trends



- Cases regarding trade secret has been increasing
- Both infringement and breach of contract are claimed in most cases
- Often involves resigned employees
- Need consider freedom to choose occupation (Constitution Art. 22)
- Small number of criminal cases

1-1 Infringement of trade secret

Definition of “Trade Secret”

1. Art.2 para.4

the term “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.

2. Three requirements

- to be kept secret
- information useful for business
- not publicly known

“to be kept secret”

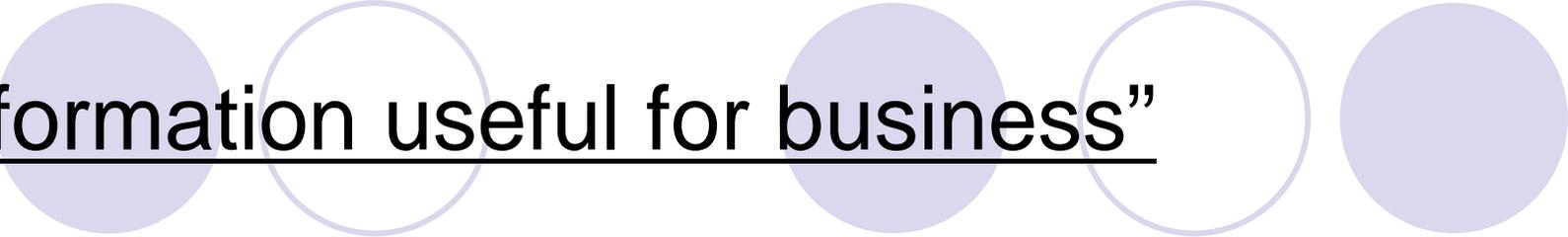


1. “to be kept secret”

- Restriction on access to the information
 - kept in locked cabinets, designated persons, controlled by password,
- Recognizable as secret from the appearance of the documents etc.
 - indication of confidentiality

2. Case-by-case decision by judges

- Most frequently disputed requirement
- Weigh all related factors, but not easy to decide



“information useful for business”

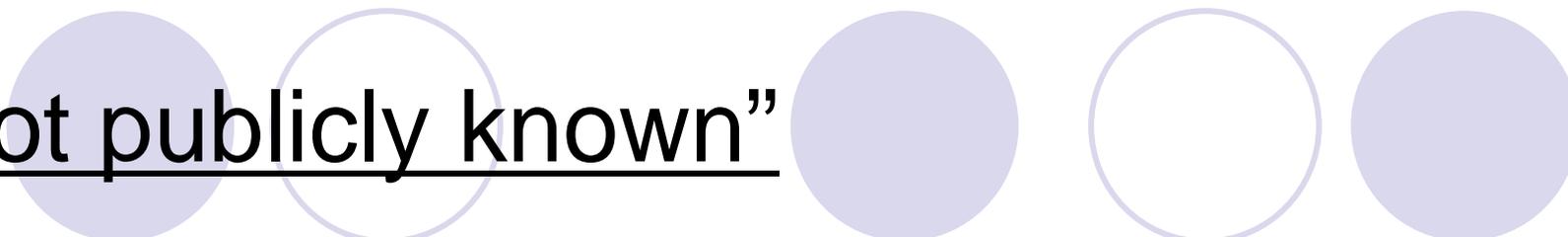
1. Examples

technical data, manufacturing methods,
recipe, customers information, manuals

2. Includes negative information

failed test/experiment data

3. Excludes information regarding illegal activities of the company or scandals



“not publicly known”

➤ Reverse engineering

trade secret that can be acquired by reverse engineering of marketed products

- information easily acquired by simple analysis of the product
- information obtained by highly skilled work that needs considerable time

Categories of infringement

Unfair Competition Prevention Law specifies six categories of conducts as infringement of trade secret.

Category A Improper acquisition of trade secret

- A-1 to acquire trade secret by improper method
- A-2 to receive the trade secret with knowledge or gross negligence
- A-3 to receive the trade secret without knowledge, but later become aware of the improper acquisition
 - * the trade secret can be used within the scope of original contract.

Categories of infringement (Continued)

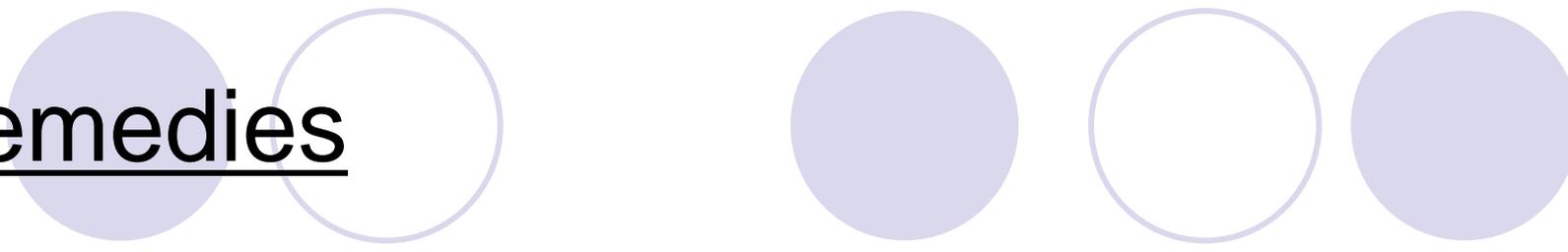
Category B Misuse of properly acquired trade secret

- B-1 to use/disclose the properly disclosed trade secret for the purpose of unfair business competition or for the purpose of causing damage to the holder
- B-2 to receive the trade secret with knowledge or gross negligence
- B-3 to receive the trade secret without knowledge, but later become aware of the improper use/disclosure
 - * same as A-3

Categories of infringement (Continued)

Issues

- An employee acquired trade secret from his/her company
- An employee jointly developed the trade secret (information shared)
- An employee developed the trade secret

A decorative graphic at the top of the slide consists of six circles arranged in two groups of three. The first group on the left has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right. The second group on the right has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right.

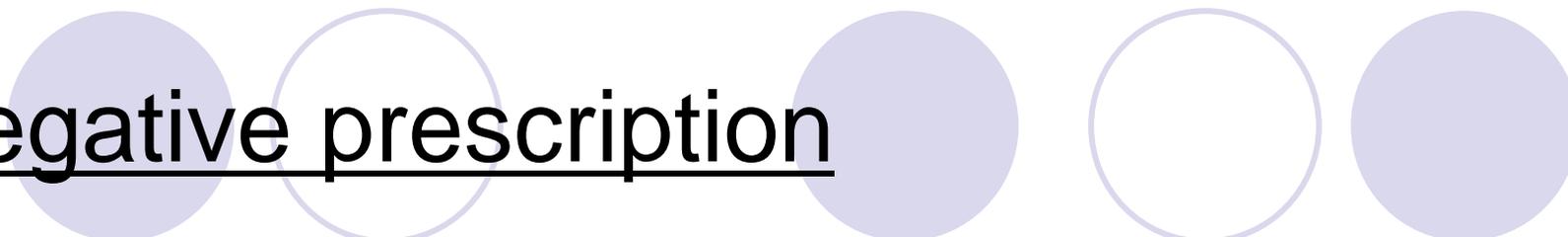
Remedies

1. Injunction

- Quick devalue of trade secret
 - injunction for limited term
- Scope of injunction
 - to prevent business itself when appropriate

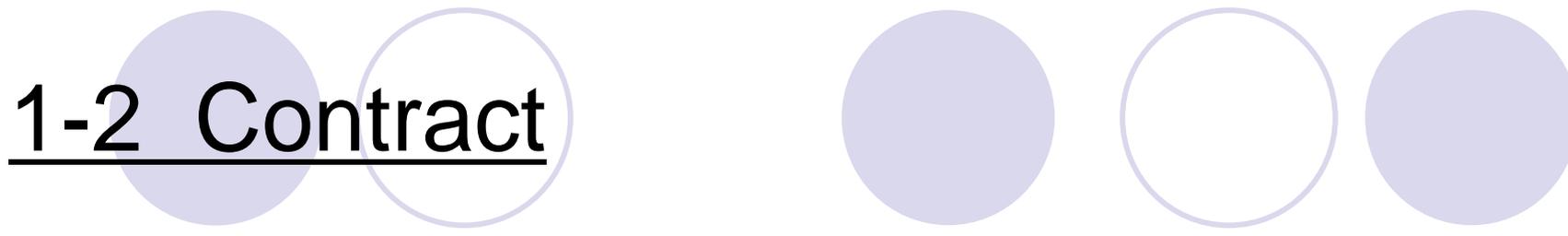
2. Compensation for damages

3. Necessary measures to restore business credibility



Negative prescription

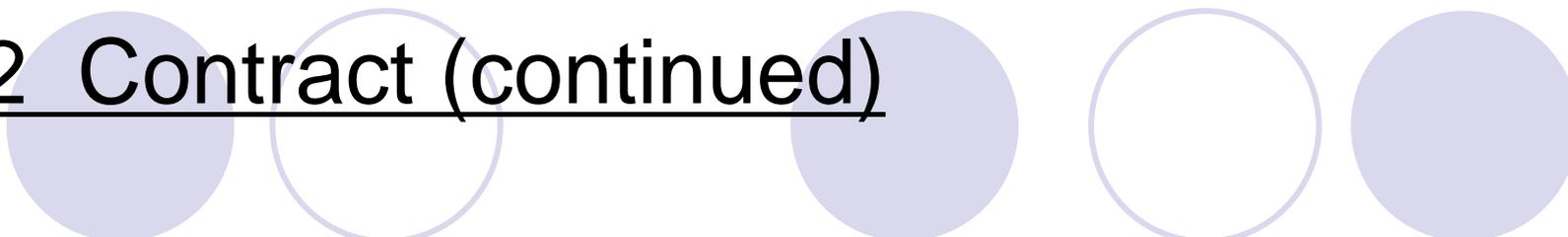
- No claim for injunction for 3 years since the holder of trade secret knew the infringement
- No claim for injunction for 10 years since the infringement started

A decorative graphic at the top of the slide consists of six circles arranged in a horizontal line. The first circle is solid light purple. The second circle is white with a light purple outline. The third circle is solid light purple. The fourth circle is white with a light purple outline. The fifth circle is solid light purple. The sixth circle is white with a light purple outline.

1-2 Contract

1. Interpretation of agreement
2. Remedies
 - Injunction (Civil Code Art.414)
 - Compensation

1-2 Contract (continued)



3. Categories

(a) Employment agreement

- Duty to keep confidentiality, to avoid engaging in competitive business
- Balance with freedom to choose occupation
- - need explicit term to impose the duties
- - practice: for 2 years after resignation

(b) Joint Research and Development

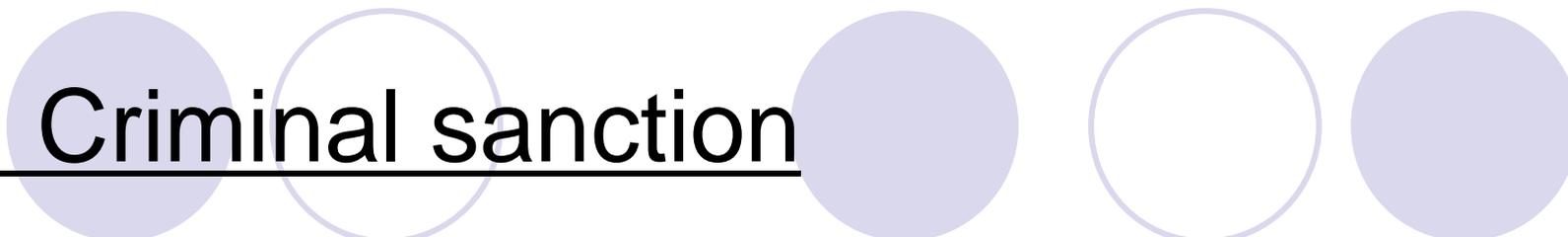
- Development of its own after the termination of business collaboration
- Residuals provision

(c) Merger, Capital tie-up



1-3 Procedural protection

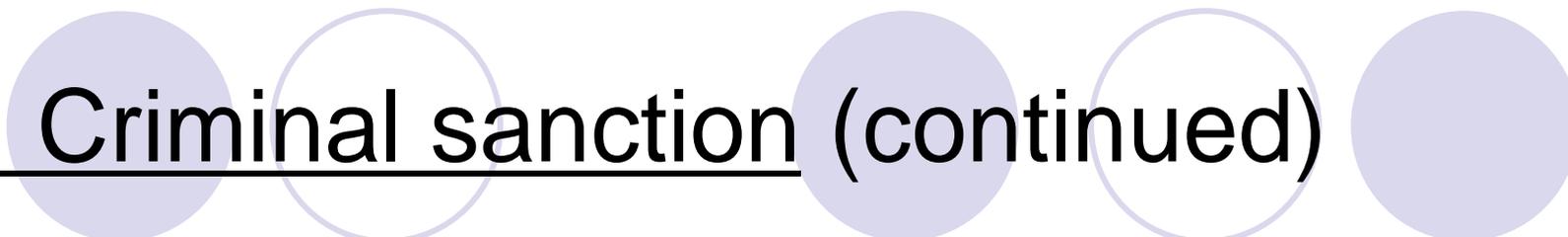
- Order to keep confidentiality (equivalent to protective order)
- Restriction on disclosure of trial record
- Closed trial session



2. Criminal sanction

(a) Unfair Competition Prevention Law

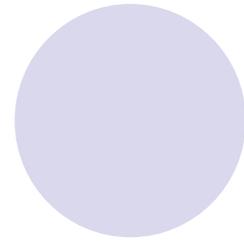
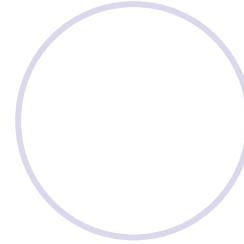
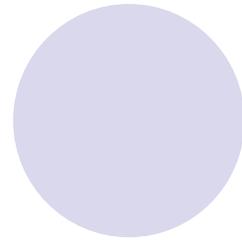
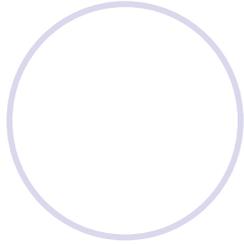
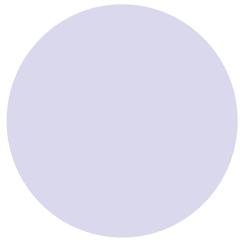
- Up to 5 years imprisonment and fine for individuals
- Fine (up to 150,000,000 yen) for companies
- Conducts outside the boundary can be punished
- Reason for rare prosecution
 - imposed on specific conducts
 - only upon complaint
 - subjective requirements
 - civil disputes by nature



2. Criminal sanction (continued)

(b) Criminal Code

Theft, embezzlement, breach of trust



● Thank you.