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Trade Secret Protection in Japan

A study of law preventing unfair competition as seen from general practice
and points at issue in recent court rulings

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Comparison of Japanese and German Systems

(Post amendment to Unfair Competition Prevention Law (“Law”))

	Japan	Germany
Punishment for unauthorized acquisition, use or disclosure of trade secrets by subsequent acquirer	Yes	Yes
Punishment for unauthorized acquisition, use, or disclosure in foreign countries	Yes	Yes
Punishment for attempted infringement of trade secrets	Yes	Yes
Punishment of individuals	10-year imprisonment/ fine of up to JPY 30 million	5-year imprisonment/ no limitation on fine
Punishment of legal entities	Up to JPY 1 billion	Up to EUR 1 million
Confiscation of profits	Yes	Yes
Offense prosecutable without complaint	Yes	Yes
Import ban on goods infringing trade secrets	Yes	No
Burden of proof for aggrieved party/collection of evidence	Provision exists to reverse burden to tortfeasor	Inspection order

Mitigate Aggrieved Party's Burden of Proof (Art. 5.2 of Law)

- Mitigate aggrieved party's burden of proof against tortfeasor's unauthorized use of trade secrets (Art. 5.2 of Law)

If aggrieved party can prove that tortfeasor

(i) Illegally acquired trade secrets, e.g. manufacturing methods of a certain product, and

(ii) Engages in business related to product,

tortfeasor must prove it can manufacture product based on technology other than that covered by aggrieved party's manufacturing methods.

Reinforcing Trade Secret Protection

- Due to diversification of employment systems and increased mobility of human resources, trade secret leakage by former employees has become a critical issue.
 - Nippon Steel & Sumitomo Metal vs. Posco (2012), Toshiba vs. SK Hynix (2014)
 - “Research and Study on Technology Leakage by Personnel” issued by METI in 2012 (Percentage of trade secret leakage by business partners or collaborative researchers is less than 10 percent)

Definition of Trade Secrets (Art. 2(vi) of Law)

- “Technical or business information useful for commercial activities such as manufacturing or marketing methods that is kept secret and that is not publicly known” (similar to the definition under Art. 39.2 of the TRIPS Agreement)
 - For trade secrets to be protected by law, they must fulfill three requirements, i.e. (i) **confidentiality**, (ii) utility (or value), and (iii) non-public nature
 - There are no Supreme Court rulings in regard to the applicability of interpretations for these three requirements. We therefore refer to lower court decisions and METI’s Policy on the Management of Trade Secrets (revised in 2015)
 - A very high degree of confidentiality was required in court precedents from 2000 to 2010. Present court trends, however, are more relaxed.
 - ◆ **Trade secrets should be managed so as to make employees aware of their confidential nature. (METI’s policy also adopts the subjective theory).**
 - ◆ Increased number of court rulings provide remedies for companies’ inadequate management of trade secrets.

Trade Secrets Not Always Protected by Contracts

- Trade secrets covered by an NDA are not always protected, even with the NDA with a former employee, business partner, or collaborative researcher.
 - A limited interpretation has been applied in a court ruling where “trade secrets” (Art. 2(iv) of Law) were considered covered by an agreement under a confidentiality covenant signed by a former employee at time of separation (Tokyo District Court Decision of November 26, 2008).
 - Limited interpretations have been applied to an NDA.
- Management of secrets based on the subjective theory of contract is required.

'Contamination' Countermeasures Required for Hiring

- After the Law's amendment, there is increased risk a company may be considered an accomplice (joint tortfeasor) to a new employee's infringement of another company's trade secrets.
 - Risk of having use of trade secrets suspended, risk of damages claim or claim to recover credibility filed by counterparty (Art. 3-9, 14 of Law)
- Pre-hire interviews are essential.
 - Be certain a potential employee is under a confidentiality obligation regarding other company's trade secrets.
 - Consider possibility of other company's trade secrets being used in potential employee's course of work.

END
Thank you for your attention!