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## Q247

### Trade secrets: Overlap with restraint of trade, aspects of enforcement

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## I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1)	Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?
	no If not please comment.:  It cannot be said that trade secret protection is viewed as a form of restraint of trade (restriction on employees' job change or competing business activities) in Japan. In relation to this, we will discuss "statutory" and "contractual" trade secret protection separately:  (1) Statutory trade secret protection  In Japan, trade secrets are protected under the Unfair Competition Prevention Act (UCPA). Article 2 (6) of the UCPA defines a trade secret as "technical or business information useful for business activities, such as manufacturing or marketing methods, that is controlled as a secret and that is not publicly known." In Paragraph (1) (iv) to (ix) of Article 2, the UCPA provides for protection of trade secrets by prohibiting wrongful acquisition, disclosure, and use of trade secrets as "acts of unfair competition."

More specifically, Subparagraph (vii) prohibits "the act of using or disclosing a trade secret that has been disclosed by the business operator that owns said trade secret (hereinafter referred to as the "owner") for the purpose of making a wrongful gain, or causing injury to such owner." For example, if an employee leaves Company A to join Company B and wrongfully discloses/uses a trade secret he acquired while in Company A, his/her act will constitute "unfair competition" as provided in this subparagraph. In this way, the provisions for trade secret protection in the UCPA somewhat restricts employees' job change or competing business activities.

However, these provisions are intended to prohibit wrongful acquisition (Art.2 (1)(iv)) and use or disclosure of a trade secret for the purpose of making a wrongful gain (Art.2 (1)(vii)), but not intended to restrict employees' job change or competing business activities. Therefore, one can freely move to another company or start competing business activities as long as he/she does not use or disclose his/her ex-employer's trade secret.

If an employee's skills and knowledge acquired while in his/her former workplace were broadly considered as trade secrets, trade secret protection would mean that he cannot freely use his/her skills or knowledge in his/her new workplace, and as a result, employees' job change or competing business activities would be restricted. In general, however, such a broad interpretation does not seem to exist. Based on what we discussed above, it cannot be said that trade secret protection under law is viewed as a form of restraint of trade (restriction on employees' job change or competing business activities) in Japan.

## (2) Contractual trade secret protection

Apart from the legal protection described in (1) above, some companies try to protect their trade secrets by concluding an agreement with their employees. For example, as part of employment rules, Company A may designate a Document X as a trade secret and oblige its employees not to take it outside the company. A "trade secret" in this context is not necessarily the same as the trade secret in Article 2 (6) of the UCPA, that is, the scope of what constitutes a trade secret can be established under the agreement. Therefore, even if the Document X does not correspond to a trade secret under the UCPA, it can be protected as a trade secret under the agreement.

If Company B obliges its ex-employees not to join other companies within the same industry for ten years after leaving the company, this would be "restriction on employees' job change or competing business activities" as an extreme example. However, such an obligation in itself is not an obligation to keep a secret. Moreover, the scope of obligation is much broader than what is needed to protect trade secrets. As a way of contractual protection, it is common for companies to prohibit their employees from taking trade secrets outside as in the case of Company A, which is not intended to restrict "employees' job change or competing business activities."

Based on what we discussed above, it cannot be said that trade secret protection under contract is viewed as a form of restraint of trade (restriction on employees' job change or competing business activities), either.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

Under Japanese law, a trade secret is defined in Article 2 (6) of the UCPA as mentioned above, "technical or business information useful for business activities, such as manufacturing or marketing methods, that is controlled as a secret and that is not publicly known." On the other hand, there is no definition of "confidential information" or "general skills or knowledge acquired during the course of employment" under law.

In this sense, trade secrets that are protected under the UCPA are distinguished from the remaining two that receive no legal protection. However, as we answered in Question 1) above, it is possible to protect "confidential information", the scope of which is different from that of a "trade secret" as defined under the UCPA.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

It is possible for companies to protect broader classes of information by including express confidentiality clauses in their employment contracts or rules. Even so, if an employee's duty of confidence lasts after the end of employment, it is possible that such clauses might be considered void depending on its duration, the scope of information, and/or the ex-employee's position.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

In Japan, there are no established rules but two conflicting theories as to this issue: in the absence of any express confidentiality clause, 1) an ex-employee's duty of confidence terminates upon the end of employment contract; and 2) it may continue as a duty based on the principle of faith and trust (Page 94, *Japanese Labor Law 10th Edition* by Kazuo Sugeno).

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

no

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

yes

If so, which employees, and what is the rationale for any distinction between employees?:

It is possible to impose a higher obligation of confidentiality on certain employees than others under contract. For example, those at the management level may be subject to a higher obligation of confidentiality. The rationale for such distinction is that these employees have an opportunity to know important corporate information.

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

1. Restriction on inspection, etc.

Access to evidence, etc. is restricted by restriction on inspection as described below:

According to the Code of Civil Procedure (CCP), any person may make a request for inspection of a case record including a judgment document concerning a civil procedure (Art. 91). However, if the case record contains a trade secret (as defined in Art. 2 (6) of the UCPA), the court may decide to limit inspection of such a confidential part to the parties to litigation (Art. 92 (1) of the CCP).

2. Suspension of open examination

Trials shall be conducted and judgment declared publicly except that it is considered detrimental to public order or morals (Art. 82 of the Japanese Constitution). However, if examination on a trade secret is open to the public, its owner's interest will be seriously affected. To avoid such a situation in patent infringement proceedings, the court may decide to conduct closed examination on a matter related to a trade secret (Art. 105-7 of the Patent Act). Such measures will restrict access by those other than the parties to hearings in which such examination is conducted.

Open examination may also be suspended in plant breeder's right infringement cases and unfair competition cases related to infringement of business interests. However, closed examination may be conducted only when a party tries to prove infringement of rights, but not permitted when a party tries to prove damage. This provision does not apply to other types of patent proceedings such as an action for revocation of patent trial decision, an action for remuneration for employee invention, nor to infringement proceedings in the fields of other types of IPRs.

3. Refusal of testimony

A witness may refuse to testify in cases where the witness is examined with regard to matters concerning technical or professional secrets (Art. 197 (1)(iii) of the CCP). A technical secret here is not necessarily the same as a trade secret defined in Article 2 (6) of the UCPA. However, a witness's refusal is not permitted in all cases merely because a technical secret is involved. Refusal of testimony will be permitted when the technical secret in question is determined to merit protection by weighing discovery of truth and fairness in court proceedings against negative effects of disclosure of that secret.

Through the refusal of testimony, access to a technical secret may be restricted in the trial process if it deserves protection.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

1. Protective order

In patent infringement proceedings, for example, if the alleged infringer's act is related to his/her trade secrets, it is possible that briefs and/or evidence submitted by him/her may contain such trade secrets.

To protect interest of those who have trade secrets, the court may decide to issue an order that trade secrets contained in the briefs and evidence not be used for any purpose other than that for proceedings of the litigation nor be disclosed to any person other than those concerned in the litigation (Art. 105-4 of the Patent Act). Parties (representatives in the case of a juridical person) to the litigation, their agents, employees and other workers, their attorneys and/or assistants shall be subject to this protective order. In accordance with this order, it is generally possible to limit the disclosure of briefs and evidence containing trade secrets to the attorneys for the opponents, but not to the opponents themselves.

A person who fails to comply with a protective order shall be punished by imprisonment with work for a term not exceeding five years or a fine not exceeding 5,000,000 yen, and in the case of a juridical person, a fine not exceeding 300 million yen (Arts. 200-2 and 201 of the Patent Act).

The same protective order system as described above is adopted not only in the field of patents, but also in infringement proceedings on other types of rights: utility models, trademarks, designs, copyrights, plant breeder's rights, and unfair competition related to infringement of business interests. The provision for protective order is also applicable in the case of provisional injunction against patent infringement (Decision by Supreme Court, Third Petty Bench, dated 27 Jan 2009, *Minshu* Vol.63, No.1, at 271). However, this court order is not available in other types proceedings such as an action for revocation of patent trial decision.

Practically, parties to litigation may also disclose trade secrets between them, and prevent the disclosure to third parties and use for unintended purposes by concluding a non-disclosure agreement, without a protective order.

c) non-confidential versions of documents being provided to all except authorised individuals;

1. Protective order

In accordance with the protective order explained in b.1 above, the parties may limit disclosure of briefs and evidence containing trade secrets. In other words, it is possible to provide non-confidential versions of documents that contain no trade secret to people other than those named in the order.

d) only non-confidential parts of any judgment / decision publicly available?

1. Restriction on inspection, etc.

As described in a.1 above, access to judgment documents may be restricted. Therefore, it is possible to make only non-confidential parts of judgment documents publicly available.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

1. Restriction on inspection

When making a request for restriction on inspection, the party will not have a great burden of proof, in particular, as to whether the information merits protection. In this sense, it can be said that restriction on inspection applies by default.

Actually, a prima facie showing of evidence is sufficient to establish that a trade secret is contained in the case record (Art. 92 (1) of the CCP). To make a "prima facie showing," the party needs to submit such evidence that the judge may have an "impression" that it seems to be true, which is not necessary to be so certain as a "conviction."

2. Protective order

When making a request for the grant of a protective order, the party will not have a great burden of proof, in particular, as to whether the information merits protection. In this sense, it can be said that the protective order applies by default.

Actually, a prima facie showing of evidence is sufficient to establish that a trade secret is contained in briefs or evidence (Art. 105-4 (1) of the Patent Act).

However, according to an opinion, since a failure to comply with a protective order is subject to criminal punishment, requirements for prima facie evidence should not be the same as in the case of restriction on inspection; the requirements in the former case should be stricter than in the latter.

3. Suspension of open examination

The party must specifically explain the need for suspension of open examination in the form of a petition etc. and submit supporting evidence. However, the party will not have a great burden of proof, in particular, as to whether the information merits protection. In this sense, it can be said that suspension of open examination applies by default.

However, the parties do not have the right to make a motion to suspend open examination. Only the court may suspend open examination by its own authority.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use -

after the proceedings have terminated - of the information they gain during the proceedings?

If a trade secret disclosed during proceedings is subject to a protective order, the court will restrict the parties' use of the trade secret after termination of the proceedings. In other words, the protective order will remain effective until it is revoked (Art. 105-5 of the Patent Act). Therefore, even if proceedings have terminated, the parties' use of such a trade secret will be restricted as long as it remains effective. If a party uses it in violation of the protective order, he/she will be subject to criminal punishment as described above.

If a piece of information is treated as a trade secret to be protected in proceedings although it is not subject to a protective order (e.g. inspection of the case record containing a trade secret is restricted), use of such a trade secret will not be restricted by the court after the end of proceeding. However, the act of using the trade secret for any purpose other than that for proceedings could be found to be a use for the purpose of making a wrongful gain or causing injury to its owner, against which injunctions and damages are available under the UCPA (Arts. 2 (1)(vii), 3, and 4). Even if it is not found to be an act of unfair competition, it may constitute a tort against which damages are available (Art. 709 of the Civil Code).

If a piece of information is not treated as a trade secret to be protected in proceedings (although its discloser argues that it is a trade secret), such information does not merit protection as a trade secret and there are no grounds for restriction on its use by a disclosee. Consequently, the party's use of such information will not be restricted regardless of whether the proceedings have terminated or not.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

If, as a result of publication, the trade secret becomes available for use by a third party, its owner will not be able to use it exclusively and its value as a trade secret will be diluted.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Where a person's business interests are infringed and the infringer has received profits through his/her act of infringement, the amount of such profits are presumed to be the amount of damages (Art. 5 (2) of the UCPA).

In the case of infringement of a technical secret, if the infringer has assigned articles constituting the act of infringement, the amount obtained by multiplying the quantity of the articles assigned by the amount of profit per unit of the articles that the infringed person could have sold in the absence of the act of infringement may be rebuttably presumed to be the amount of damages incurred by

the infringed person, to the extent that does not exceed the amount corresponding to the infringed person's capacity to sell or carry out any other acts pertaining to said articles (Art. 5 (1) of the UCPA).

A person whose business interests have been infringed may claim damages against the infringer for the amount of money that should be awarded against the use of a trade secret as the amount of damages incurred by him/her (Art. 5 (3)(iii)).

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

yes

Please comment:

Although compensation can be awarded for damage by infringement of business interests (Art. 4 of the UCPA) and for intangible damage as a result of injury to business reputation (Art. 14 of the UCPA), there is not an explicit provision nor a court decision on damages for moral prejudice in Japan.

d) If so, how is moral prejudice defined and how are such damages quantified?

#### Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

To establish violation of a trade secret both in civil and criminal cases, it is necessary to prove that the allegedly infringed information is a trade secret, more specifically, it is controlled as a secret, useful for business activities, and not publicly known (Art. 2 (6) of the UCPA).

In addition, any of the following must be proved in a civil case:

□ The act of wrongfully acquiring a trade secret, or the act of using/disclosing a wrongfully acquired trade secret (Art. 2 (1)(iv) of the UCPA).

□ The act of acquiring a trade secret, while knowing or being grossly negligent in not knowing that there has been an intervening act of wrongful acquisition, or the act of using/disclosing a trade secret acquired in such a way (Art. 2 (1)(v) of the UCPA).

□ The act of using/disclosing an acquired trade secret, while getting to know, after its acquisition, or being grossly negligent in not knowing that there has been an intervening act of wrongful acquisition (Art. 2 (1)(vi) of the UCPA).

□ The act of using/disclosing a duly disclosed trade secret for the purpose of making a wrongful gain or causing injury to its owner (Art. 2 (1)(vii) of the UCPA).

□ The act of acquiring a duly disclosed trade secret, while knowing or being grossly negligent in not knowing that it has been wrongfully disclosed (or there has been an intervening act of wrongful disclosure), or the act of using/disclosing a trade secret acquired in such a way (Art. 2 (1)(viii) of the UCPA).



□ The act of using/disclosing a duly acquired trade secret, while getting to know, after its acquisition, or being grossly negligent in not knowing that it has been wrongfully disclosed (or there has been an intervening act of wrongful disclosure) (Art. 2 (1)(ix) of the UCPA).

On the other hand, any of the following must be proved in a criminal case:

□ The act of acquiring a trade secret through the act of fraud, etc. or the usurpation of control for the purpose of making a wrongful gain or causing injury to its owner (Art. 21 (1)(i) of the UCPA).

□ The act of using/disclosing a trade secret, acquired through the act of fraud, etc. or the usurpation of control, for the purpose of making a wrongful gain or causing injury to its owner (Art. 21 (1)(ii) of the UCPA).

□ The act of obtaining a duly disclosed trade secret, for the purpose of making a wrongful gain or causing injury to its owner, in breach of duty related to the control of said trade secret, (Art. 21 (1)(iii) of the UCPA).

□ The act of using/disclosing a trade secret obtained in such a way as set forth in the preceding paragraph, for the purpose of making a wrongful gain or causing injury to its owner, in breach of duty related to the control of said trade secret, (Art. 21 (1)(iv) of the UCPA).

□ The act of using/disclosing a trade secret by an employee of its owner, for the purpose of making a wrongful gain or causing injury to its owner, in breach of duty related to the control of said trade secret, (Art. 21 (1)(v) of the UCPA).

□ The act of using/disclosing a trade secret by an ex-employee of its owner for the purpose of making a wrongful gain or causing injury to its owner, after making an offer or receiving a request to do so in breach of duty related to the control of said trade secret while in employment (Art. 21 (1)(vi) of the UCPA).

□ The act of using/disclosing a trade secret, acquired through its disclosure provided in Article 21 (1) (ii), (iv), (v) or (vi) of the UCPA, for the purpose of making a wrongful gain or causing injury to its owner (Art. 21 (1)(vii) of the UCPA).

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

To answer this question, we will discuss what elements must be proved to establish breach of confidence under contract, in comparison to trade secret violation under the UCPA

First, we look at types of information covered under contract and under the UCPA. If a non-disclosure contract provides explicitly that information to be protected does not necessarily have to be a trade secret or a piece of information controlled as a secret, it is likely that such a provision will be considered valid unless there are special circumstances. In this case, to establish trade secret violation committed by a contract party, it will be necessary to additionally prove that the information in question was controlled as a secret (Ar. 2 (6) of the UCPA). If the non-disclosure contract does not provide explicitly that information to be protected does not necessarily have to be a trade secret or a piece of information controlled as a secret, or does not include such requirements at all, it may still be interpreted, depending on other specific definitions or provisions, that information to be protected under this contract does not necessarily have to be a trade secret or a piece of information controlled as a secret. In this case, to establish trade secret violation committed by a contract party, it will be necessary to

additionally prove that the information in question was controlled as a secret (Ar. 2 (6) of the UCPA).

Second, we look at types of acts covered under contract and under the UCPA. Compared to an ordinary non-disclosure contract that requires obligations of confidence and non-use for unintended purposes, it is necessary to additionally prove a purpose of making a wrongful gain or causing injury to the trade secret owner (Art. 2 (1)(vii) of the UCPA) in order to establish trade secret violation in a civil case. In a criminal case, on the other hand, it is necessary to additionally prove possession in breach of duty of control, and a purpose of making a wrongful gain or causing injury to the owner (Art. 2 (1)(iv) of the UCPA), the fact of being employed, a purpose of making a wrongful gain or causing injury to the owner, and breach of duty of control (Art. 2 (1)(v) of the UCPA), or an offer/request made in breach of duty of control while in employment for the purpose of making a wrongful gain or causing injury to the owner (Art. 2 (1)(vi) of the UCPA).

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

no

13) Does your jurisdiction provide for discovery?

no

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

no

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

As a kind of disposition for collection of evidence prior to the filing of action, the Code of Civil Procedure (CCP) provides that the court may order a court execution officer to examine the current status of evidence (Art. 132-4 (iv)). When a petition is filed by an advance noticer and it is found that the noticer has difficulty collecting by him/herself evidence that would be obviously necessary for showing proof in proceedings pertaining to the advance notice, the court, prior to the filing of the action, may give this order after hearing opinions of the adverse party, except that the court finds it inappropriate to do so on the grounds of the amount of time required or other circumstances (Art. 132-4). However, the adverse party may refuse such order.

The CCP also provides for preservation of evidence: when there are circumstances where it would be difficult to examine evidence if it is not examined prior to the filing of action, the court may decide to conduct its examination upon petition (Article 234). In response, the adverse party may file a petition to reject the petition for preservation of evidence before the decision, and file an appeal to the court for revocation or change of the decision by its own authority after the decision (Art. 120). However, if the adverse party is unwilling to offer cooperation in observation or expert testimony when evidence is examined for the purpose of its preservation, the court cannot force the adverse party to do so and there is no punishment for this. However, if the adverse party does not comply with an order for submission of an article to be observed, he/she will be at a disadvantage in proceedings (Arts. 232 (1)

and 224). If a third party does not comply with this order, he/she may be subject to a non-penal fine of not more than 200,000 yen (Art. 232 (2)).

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Seizure is not available in Japan.

## II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

no

If not, why?:

(1) Statutory trade secret protection

As we answered in Question 1) above, the trade secret protection under the UCPA is not a form of restraint of trade (i.e. restriction on employees' job change or competing business activities) and it is not likely to constitute an unlawful restraint on trade. Thus, there is no need to place limits on the protection of trade secrets, from the viewpoint of prevention of unlawful restraints on trade.

(2) Contractual trade secret protection

On the other hand, an excessive restraint of trade (restriction on employees' job change or competing business activities) under contract should be considered as unlawful and regulated. For example, if, as part of employment rules, a company prohibits its ex-employees from joining other companies within the same industry for ten years after leaving the company, such a rule excessively restricts ex-employees' free choice of employment and therefore, should be considered unlawful and invalid.

According to an academic theory in Japan, an ex-employee should not generally have a duty of non-competition after the end of employment contract because of his/her free choice of employment, and it is necessary to determine what the legal grounds are for such measures and whether such measures are reasonable on each dispute (Page 94, *Japanese Labor Law 10th Edition* by Kazuo Sugeno). Also, a recent court decision strictly limits duty of non-competition after the end of employment, e.g. duration and range of restriction under special provisions is required to be minimum (Osaka High Court decision dated 5 Oct 2006, *Rodo Hanrei* No.927, at 23 etc.)

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

We think it is reasonable that employees in different positions have different obligations of confidence because there is difference in accessible information depending on the position.

For example, there is difference both in quality and quantity of accessible information between an employee in his/her first year at the company and an employee with 20 years of service. If the company

imposes an obligation of confidence after the end of employment, its duration for the latter should be longer than that for the former.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

1. If the information in question is not found to be a trade secret:

If the information itself is not found to be a trade secret, there is no need for protection as a trade secret. Therefore, the defendant should not be required to not use that information.

2. If the information in question is found to be a trade secret but the defendant's act is not found to be trade secret violation:

A party who learns of a trade secret disclosed during the course of litigation should be required to not use the trade secret after the proceedings, except for special circumstances, e.g. the party had independently developed the same trade secret or obtained it from a third party without confidential obligation. This is because:

A trade secret is property that is available for exclusive use by its owner. The purpose of its disclosure in proceedings is only to allow the parties to make their arguments and fulfill their burden of proof in an adequate manner so that proceedings may be carried out properly. Consequently, there is no need to permit other people than the trade secret owner to use the trade secret after the proceedings nor are they allowed to use it at the expense of the owner's interests.

For the reason described above, a party who learns of a trade secret disclosed during the course of litigation should basically be required to not use the trade secret after the proceedings.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

The confidentiality obligation described in the preceding question should not attach to information that the defendant developed independently prior to the trade secret proceedings.

This is because this trade secret is not only the property of the claimant but also that of the defendant who had independently developed it. The defendant should be allowed to use it (e.g. disclose it to a third party) at his/her disposal.

This is clear from what is provided under the Patent Act: a protective order will not be given if the adverse party had obtained or possessed the trade secret in question, prior to the filing of a petition for

this order, through other means than contact with briefs or evidence containing said secret (Art. 105-4 (1)).

Such confidentiality obligation should not attach to information that the defendant develops independently after the trade secret proceedings, either.

If confidentiality obligation were imposed even in such a case, the defendant's ability to freely develop and use trade secrets would be unreasonably hindered by the fact that the same trade secret was disclosed by chance in a previous lawsuit.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes

If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

b) only where injunctive relief is not adequate

c) only where injunctive relief is not necessary?

d) If by default, why?

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes. *Ex parte* hearings should be available in a civil case where the alleged infringer wrongfully, knowingly or negligently acquired a trade secret such as a manufacturing method and made a product that may be brought about as a result of the use of said method, if the use of said method is rebuttably presumed under law and the burden of proof switches to the alleged infringer as to non-use of said method, for example, as provided in Article 5-2 of the UCPA scheduled to be amended in 2015. Generally speaking, in this case, it is difficult for the owner to collect evidence and there is a risk of falsification or concealment of evidence by the alleged infringer (user). Moreover, such hearings would not excessively limit the defense right of the alleged infringer (user).

b) Should pre-action evidence seizure orders be available?

24)	What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?
	Obligations of non-disclosure and non-use for unintended purposes should be imposed on the claimant.

### III. Proposals for harmonisation

25)	Is harmonisation in this area desirable?
	Yes. (We will answer the following questions without regard to Japanese law.)

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

#### Aspect (i) - Overlaps with restraint of trade

26)	Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.
	Restricting an ex-employee's free choice of employment for the purpose of trade secret protection should be invalid if it is not considered reasonable in light of the range of restriction (duration, area, etc.), his/her position and the amount of his/her salary while in employment etc.

27)	What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?
	If an enforcement action is barred as a restraint of trade, no relief by the court should be available.

28)	Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?
	Yes. An employee should be released from a stricter obligation of confidentiality if he/she gets to have fewer opportunities to know important information, because of demotion to a lower position or change in his/her function/role.

#### Aspect (ii) - Ensuring confidentiality during Court proceedings

29)	What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?
	<p>A trade secret should be placed under exclusive control of its owner. Despite this, disclosure of a trade secret is permitted in proceedings based on the need to ensure proper proceedings of litigation by allowing the parties to make their arguments and fulfill their burden of proof in an adequate manner.</p> <p>Therefore, as a way of protection for a trade secret disclosed in proceedings, it is considered necessary to ensure that the trade secret will be used only for the purpose of the proceeding and disclosed to the minimum number of people required for said purpose. To make such trade secret protection effective</p>

while ensuring proper proceedings of litigation, procedural protection should be provided so that a protective order may be more generally available not only in patent infringement cases but also other cases where trade secrets are involved.

However, if the same trade secret was developed at the same time by someone else, it is necessary to ensure that he/she will not be prevented from using the information at his/her disposal. Trade secret protection should never be provided if such information is already usable without restriction.

Requirements for the trade secret protection described above should be at least: the information in question is (1) not publicly known, (2) controlled as a secret, (3) not known to disclosees beforehand, and (4) not also developed by a disclosee independently.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

1. If the reason for failure of an enforcement action is that the secret information in question was not exclusively held by the claimant or those who were authorized to use it: e.g. the defendant had independently developed it:

In this case, the information in question is not secret information to be controlled exclusively by the claimant, and therefore, other people should be allowed to use it freely unless it is protected under the Patent Act etc. Consequently, confidentiality or non-use obligation should not be imposed on the defendant.

2. The reason for failure of an enforcement action is not related to whether the secret information in question was exclusively held by the claimant or those who were authorized to use it, e.g. the defendant's alleged use of the secret information could not be proved successfully:

In this case, the information in question is secret information that should be controlled exclusively by the claimant, but it is disclosed only for the limited purpose of ensuring proper proceedings. It is not allowed to use such information worthy of protection for other than the purpose. Consequently, the defendant's confidentiality or non-use obligation should continue and disclosure of the information should be permitted to the minimum extent necessary for the purpose of proceedings.

Such obligation should not cease to apply until the grounds for protection of this secret information are lost, e.g. it becomes publicly known for reasons not attributable to the defendant.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

In order to reduce the burden of proof for the party who filed a claim for damages, the damages should be calculated based on the amount of profits obtained by the infringer through his/her act of infringement or the amount the trade secret owner would have received in return for the use thereof.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

It may be worth considering the creation of a system for expert inspection conducted in accordance with a court order as in Germany.

Also, *ex parte* hearings should be available in a civil case where the alleged infringer wrongfully, knowingly or negligently acquired a trade secret such as a manufacturing method and made a product that may be brought about as a result of the use of said method, if the use of said method is rebuttably presumed under law and the burden of proof switches to the alleged infringer as to non-use of said method, for example, as provided in Article 5-2 of the UCPA scheduled to be amended in 2015,.

34) What restrictions should apply to the use of seized evidence by the claimant?

Obligations of non-disclosure and non-use for unintended purposes should be imposed on the claimant.

Summary

### **Summary**

#### **Aspect (i) - Overlap with restraint of trade**

##### **[Current law and practice]**

It cannot be said that trade secret protection is viewed as a form of restraint of trade (restriction on employees' job change or competing business activities) in Japan.

If an employee's skills and knowledge acquired while in his/her former workplace were broadly considered as trade secrets, trade secret protection would mean that he cannot freely use his/her skills or knowledge in his/her new workplace, and as a result, employees' job change or competing business activities would be restricted. In general, however, such a broad interpretation does not seem to exist.

##### **[Proposals for harmonisation]**



Restricting an ex-employee's free choice of employment for the purpose of trade secret protection should be invalid if it is not considered reasonable in light of the range of restriction (duration, area, etc.), his/her position and the amount of his/her salary while in employment etc.

### **Aspect (ii) - Ensuring confidentiality during Court proceedings**

#### **[Current law and practice]**

All of the measures below, mentioned in the Question 6 of the working guidelines, are available to some extent in Japan.

- a. restricted access to the hearing and / or evidence;
- b. disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
- c. non-confidential versions of documents being provided to all except authorised individuals;
- d. only non-confidential parts of any judgment / decision publicly available?

#### **[Proposals for harmonisation]**

As a way of protection for a trade secret disclosed in proceedings, it is considered necessary to ensure that the trade secret will be used only for the purpose of the proceeding and disclosed to the minimum number of people required for said purpose. Requirements for the trade secret protection described above should be at least: the information in question is (1) not publicly known, (2) controlled as a secret, (3) not known to disclosees beforehand, and (4) not also developed by a disclosee independently.

### **Aspect (iii) - Valuation of loss**

#### **[Current law and practice]**

Where a person's business interests are infringed and the infringer has received profits through his/her act of infringement, the amount of such profits are presumed to be the amount of damages (Art. 5 (2) of the UCPA).

In the case of infringement of a technical secret, if the infringer has assigned articles constituting the act of infringement, the amount obtained by multiplying the quantity of the articles assigned by the amount of profit per unit of the articles that the infringed person could have sold in the absence of the

act of infringement may be rebuttably presumed to be the amount of damages incurred by the infringed person, to the extent that does not exceed the amount corresponding to the infringed person's capacity to sell or carry out any other acts pertaining to said articles (Art. 5 (1) of the UCPA).

A person whose business interests have been infringed may claim damages against the infringer for the amount of money that should be awarded against the use of a trade secret as the amount of damages incurred by him/her (Art. 5 (3)(iii)).

There is neither an explicit provision nor a court decision on damages for moral prejudice in Japan.

#### **[Proposals for harmonisation]**

In order to reduce the burden of proof for the party who filed a claim for damages, the damages should be calculated based on the amount of profits obtained by the infringer through his/her act of infringement or the amount the trade secret owner would have received in return for the use thereof. The courts should probably not award moral damages.

#### **Aspect (iv) - Proving infringement**

#### **[Current law and practice]**

Our jurisdiction does neither provide for discovery nor seizure. Document production order is available under certain conditions.

#### **[Proposals for harmonisation]**

It may be worth considering the creation of a system for expert inspection conducted in accordance with a court order as in Germany.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

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**Note** (a premise of our answers):

Aspect (i) concerns "overlap with restraint of trade." In Japan, the Antimonopoly Act provides for "unreasonable restraint of trade" in Article 2 (6), defined as "business activities, by which any enterprise, by contract, agreement or any other means irrespective of its name, in concert with other

enterprises, mutually restrict or conduct their business activities in such a manner as to fix, maintain or increase prices, or to limit production, technology, products, facilities or counterparties, thereby causing, contrary to the public interest, a substantial restraint of competition in any particular field of trade."

However, according to 4) and 5) in the Working Guidelines Q247, the restraint of trade substantially refers to "restriction on employees' job change or competing business activities," which seems conceptually different from the unreasonable restraint of trade under Japanese law. Therefore, we will answer the questions below based on the premise that the "restraint of trade" herein refers to "restriction on employees' job change or competing business activities."

3)

Academically speaking, employees are thought to be under a duty of confidence for the duration of their employment contract, regardless of whether such a duty is set out in their contract (Page 93, *Japanese Labor Law 10th Edition* by Kazuo Sugeno; Page 568, *Civil Law: Contracts and Torts Vol.2-2* by Sakae Wagatsuma). In any case, this is not a statutory but a contractual obligation.

4)

Although there is no distinction between the types, they cannot wrongfully disclose or use information that corresponds to a trade secret defined under the UCPA.

6) e. Other

1. In-camera procedure

Under the Code of Civil Procedure, the holder of a document may refuse to submit it if it contains "matters concerning technical or professional secrets" in a civil procedure (Arts. 220 (iv)(b) and 197 (1)(iii) of the CCP). Therefore, it may be possible to refuse to submit a document if it contains a trade secret. However, in patent infringement proceedings, even if a document contains a trade secret, it cannot always be said that there are "reasonable grounds" for the party to refuse submission of such a document (Art. 105 (1) of the Patent Act).

Anyway, to decide whether to force a party to submit a document containing trade secrets, the document is first checked by the judge in an in-camera procedure (Art. 223 (6) of the CCP, Art. 105 (2) of the Patent Act). Generally, only the judge can check such documents in an in-camera procedure (Art. 223 (6) of the CCP). In patent infringement proceedings, however, the judge may disclose the document to the adverse party and its attorney to hear their opinions (Art.105 (3) of the Patent Act), whereby due process may be guaranteed to the adverse party. Even in such a case, it is possible to protect trade secrets by issuing a protective order to the adverse party in the in-camera procedure.

The in-camera procedure system is adopted not only in the field of patents, but also in infringement proceedings on other types of rights: utility models, trademarks, designs, copyrights, plant breeder's rights, and unfair competition related to infringement of business interests.

2. Trade secret protection in criminal proceedings

To protect trade secrets in proceedings on violation of trade secrets, the Unfair Competition Protection

Act (UCPA) was revised in 2011 to add the following provisions:

(1) "Protective rulings for trade secrets" provides for a court decision not to reveal information concerning a trade secret in open court (Art. 23 of the UCPA)

(2) "Examination of witnesses, etc. on a day other than a trial date" provides that examination of witnesses may be conducted in other occasion than open court if information concerning a trade secret is involved (Art. 25 of the UCPA).

9)

Yes. Damages are available as a remedy for trade secret violation (Art. 4 of the UCPA).

12)

In Japan, constructive knowledge of a trade secret by an ex-employee or a new employer cannot be imputed.

13)

The Code of Civil Procedure of Japan does not provide for discovery.

14)

The burden of proof of trade secret violation is placed on its owner in a civil case and on the prosecution in a criminal case. It is generally considered that this burden of proof does not switch to the defendant, but the necessity of proof of non-violation may switch to the defendant when a probability of trade secret violation is demonstrated by its owner in a civil case or by the prosecution in a criminal case, and the judge forms a prima facie impression about the trade secret violation. (According to Article 5-2 of the Unfair Competition Prevention Act scheduled to be amended in 2015, in a civil case where the alleged infringer wrongfully, knowingly or negligently acquired a trade secret such as a manufacturing method and made a product that may be brought about as a result of the use of said method, the use of said method is rebuttably presumed under law, and the burden of proof will switch to the alleged infringer as to non-use of said method.)

21)

Damages as a remedy should be available by default. This is because even if injunctive relief is granted, the trade secret owner's business interests can be infringed as a result of the use thereof before its grant.

22)

N/A, because the constructive knowledge of a trade secret by an ex-employee is neither recognised nor should be recognised.

32)

No. The courts should not award moral damages.