



Japan Strengthens Deterrence Measures Against Trade Secret Infringement

The Unfair Competition Prevention Act of Japan is Amended

On July 3, 2015, the Japanese Diet passed a bill (the “Amending Act”) amending the Unfair Competition Prevention Act (the “UCPA”) to bolster civil claims and stiffen criminal penalties so as to strengthen deterrence measures against trade secret infringement.¹ This amendment, effective as of January 1, 2016, will fill in some gaps between the trade secret protection system of Japan and similar systems in other developed countries.² This *Commentary* provides an overview of the key features of the Amending Act.

Background

The ability to be the sole user of key technologies and information has immense value. The value of trade secrets held by Japanese corporations has been increasing and accounts for a growing portion of their worth. However, unlike other intellectual property rights such as patents, once a trade secret is made public, its value is in most cases immediately lost, and recovering from the loss is extremely difficult.

As advanced portable electronic devices have proliferated and cyber attacks have become more

sophisticated, reported incidents of trade secret misappropriation, especially those involving overseas perpetrators, have been on the rise. Misappropriation of trade secrets has caused significant damage to Japanese corporations, harmed Japan’s economy, and benefited the perpetrators unjustly.

Given these issues, the Japanese government decided to strengthen deterrence measures that are available against trade secret infringement, by introducing enhanced civil claims, stiffer criminal penalties, and new procedural mechanisms that make it easier for victims to sue infringers.

Criminal Penalties - Increasing the Scope of Penalties

(i) Stolen Information Stored Overseas. Japanese companies are increasingly outsourcing operations overseas and expanding their presence internationally. With the proliferation of overseas cloud storage, Japanese companies’ trade secrets are being stored abroad ever more frequently. However, under the pre-amendment UCPA (the “Old UCPA”), only acts of wrongful use or disclosure of a trade secret were subject to criminal penalties when committed overseas,

and only if the trade secret was controlled within the territory of Japan.

Under the amended UCPA (the “Amended UCPA”), the scope of acts potentially subject to criminal penalties widens to cover not only wrongfully using or disclosing, but also *acquiring*, a trade secret outside Japan. Furthermore, it protects any trade secret held by a *person doing business in Japan*, and eliminates the previous requirement that a trade secret had to have been controlled in Japan. Thus, for example, the theft of trade secrets from a Japanese company worker temporarily stationed overseas on business will now be subject to criminal penalties, as well as the overseas theft of trade secrets stored by a Japanese company on a cloud storage service.

(ii) Attempted Infringement of Trade Secrets. The Old UCPA imposed penalties only to completed acts of trade secret infringement, such as the successful theft of a trade secret, and not to mere attempts. However, a leaked trade secret spreads widely and quickly, thus imposing penalties on attempts at infringement was deemed an effective means to deter infringement and protect trade secrets. Accordingly, the Amended UCPA expands the scope of prohibited acts to cover attempts to infringe a trade secret, such as an attempt to steal, regardless of whether they succeed.

(iii) Subsequent Acquirers of Trade Secrets. The Old UCPA imposed penalties only on an individual who directly and improperly receives a trade secret (a second-degree acquirer) from an individual who had either improperly received it initially (a first-degree acquirer) or initially received it properly but then disseminates it improperly. In other words, the Old UCPA limited imposition of penalties to first and second-degree acquirers.

The Amended UCPA expands the scope of those who can be penalized by including any person who acquires and resells a trade secret with the knowledge that the trade secret has been disclosed wrongfully. This means that a third-degree acquirer and further subsequent acquirers can be criminally liable as well.

Criminal Penalties and Civil Claims for the Assignment, Importation, and Exportation of Products Infringing on Trade Secrets

The Amended UCPA prohibits the assignment, importation, and exportation of goods produced by an infringing use of technical trade secrets (hereinafter referred to as “Infringing Products”) with the requisite intent (as detailed below). It also makes Infringing Products subject to injunction from such assignment, importation, and exportation pursuant to a civil claim, and makes such acts subject to criminal penalties.

For civil claims, the Amended UCPA imposes liability on a person who either knew that the goods in question were Infringing Products at the time of obtaining them, or was grossly negligent in failing to acquire such knowledge. For criminal proceedings, the Amended UCPA penalizes only a person who had actual knowledge.

The Old UCPA prohibited only the act of using a trade secret, and therefore, it was not possible to seek an injunction to stop importation of products manufactured outside Japan using a trade secret relating to manufacturing method. Thus, by also prohibiting the assignment, importation, and exportation of an Infringing Product, the Amended UCPA aims to further discourage the theft of technical trade secrets.

Imposition of Greater Criminal Penalties

The Amended UCPA imposes greater criminal penalties such as imprisonment and larger monetary fines for criminal infringement. It raises the maximum fine from 10 million JPY to 20 million JPY for individuals, and from 300 million JPY to 500 million JPY for corporations and other legal entities.

In addition, a new, heavier penalty has been introduced for wrongful overseas use of trade secrets and wrongful disclosure of trade secrets to overseas companies. The maximum fine is 30 million JPY for individuals and 1 billion JPY for legal entities. These new penalties are being introduced because overseas infringement tends to cause more harm than infringement inside Japan, and judicial relief for overseas infringement is more difficult to obtain.

Furthermore, the Amended UCPA introduces the ability to confiscate the proceeds from the crimes of trade secret infringement.

No Criminal Complaint Required for Prosecution of Trade Secret Infringement

Under the Old UCPA, criminal prosecution of a trade secret infringement required a formal complaint from the victim. Under the Amended UCPA, this is no longer necessary.

Civil Claims

Reducing the Burden of Proof. In a civil suit under the Old UCPA for infringement based on the use of trade secrets, the plaintiff had the burden of proof and had to submit evidence establishing the unlawful use. However, especially in the case of technical information related to manufacturing method, it is usually extremely difficult for the plaintiff to demonstrate that the defendant has been using a trade secret it obtained unlawfully, because the necessary evidence is usually located on the defendant's premises, and in Japan, there is no discovery system comparable to that of the United States that allows the plaintiff to obtain such evidence. Therefore, the Amended UCPA creates a rebuttable presumption that the defendant used the plaintiff's trade secrets related to manufacturing method, upon a showing by the plaintiff that (i) the defendant wrongfully acquired the plaintiff's trade secrets³ and (ii) the defendant manufactured goods that can be produced by the use of those trade secrets, and (iii) the trade secrets relate to a method of producing goods.⁴ The defendant may overcome this presumption by demonstrating affirmatively that it did not manufacture its goods using the trade secret. This shifting of the burden of proof is unique among developed countries.

Extension of the Statute of Limitations

Under the Old UCPA, if an infringer engages continuously in the wrongful use of trade secrets, the right to seek an injunction or damages extinguishes after 10 years from the start of the infringing act. The new statute of limitations in the Amended UCPA, which is already in effect, extends the limitations period to 20 years, because past cases showed that it can often take many years to discover a trade secret infringement.⁵

Conclusion

The impetus for these amendments stems from the realization over the last few years of large-scale, illegal outflow of trade secrets from Japan. For example, in 2014, Toshiba Corporation sued SK Hynix Inc. under the UCPA for about 110 billion JPY in damages, for wrongfully acquiring and using proprietary flash memory technology.⁶ In the same year, Benesse Corporation, a major correspondence education provider, suffered a theft of its customer information including the names and birthdates of many minors, when an outside systems engineer misappropriated and sold the information. This caused extensive damage to the company, which lost customers and whose reputation was severely tarnished.

The Amended UCPA will strengthen the deterrence of such infringing acts. However, companies will still need to take all reasonable measures to prevent misappropriation of trade secrets. Companies should adopt the measures in the "Trade Secret Management Guidelines" published by the Ministry of Economy, Trade and Industry of Japan (the "Ministry")⁷, which provide the minimum precautions necessary to adequately manage trade secrets, as well as the Ministry's trade secret protection manual, which provides the best practices with respect to information management.⁸

The Amending Act does not amend the Customs Law of Japan so that Japanese Customs can seize Infringing Products at the border like they can seize products that infringe other types of intellectual property rights. We expect the Japanese government to address in due course the issue of introducing new border measures against Infringing Products.

Lawyer Contacts

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Endnotes

- 1 The UCPA defines trade secret as technical or business information that is "useful in commercial activities," "controlled as a secret," and "not publicly known." The UCPA provides civil remedies for trade secret misappropriation and criminal liabilities for malicious trade secret misappropriation.
- 2 The provision with respect to the extension of the statute of limitations of civil claims relating to trade secret infringement came into effect on July 10, 2015, the day of promulgation of the Amending Act. Please see the section titled "Extension of the Statute of Limitations" below.
- 3 This presumption does not apply to cases where the defendant lawfully acquired a trade secret but subsequently engaged in unlawful use of such trade secret.
- 4 An example of a trade secret that relates to a method of producing goods is a design drawing. On the other hand, a sales manual is not, because it is business information and not related to a method of producing goods.
- 5 If a holder of the trade secret becomes aware of the fact of infringement and of the infringer, the right extinguishes after three years from the time of such awareness.
- 6 According to media reports, SK Hynix agreed to pay 278 million USD (approximately 33 billion JPY at the time) and the parties settled the dispute in December 2014.
- 7 See <http://www.meti.go.jp/policy/economy/chizai/chiteki/pdf/20150128hontai.pdf> (available only in Japanese).
- 8 "Secret Information Protection Handbook - Towards Enhancement of Corporate Values-" on (February 8, 2016). See <http://www.meti.go.jp/policy/economy/chizai/chiteki/pdf/handbook/full.pdf> (available only in Japanese).