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# Trade Secrets

## Introduction

Japan has established formal protection of trade secrets (sometimes called commercial secrets) under the Unfair Competition Prevention Act (UCPA). Changes to the legislation between 2003 and 2006 increased the protection of trade secrets, keeping Japan in step with international standards. Whilst the basic principles involved are no different from the protection of confidential information in Australia, Japan's law is statutory. The scheme of the Japanese UCPA is more commercially or trade-related, whereas Australian common law can include any type of confidential information transfer.

## What are trade secrets?

To qualify as a trade secret in Japan, information must be:

- Deliberately kept secret, only accessible to a limited number of persons (access control) and recognizable as secret by the person who accesses it (objective 'recognizability').
- Useful in the conduct of a business, technical or business information which is objectively used for business activities or useful for reducing costs and improving business efficiency if used.
- Not publicly known, inaccessible except under the control of the holder.

Information useful for business includes:

- Production formulae or methods.
- Methods of sales.
- Technical or commercial information relevant to business activities.

- Recipes.
- Customer information and manuals.
- 'Negative' information, such as data of failed tests or experiments.

However information regarding any illegal activities of a company or scandals is excluded and cannot be protected.

In short, to be protected it is essential that a commercial secret has an economic value and is treated properly as a secret by the holder.

## How does the law protect trade secrets?

Protection against infringement of trade secrets is provided under the UCPA. Protection against infringement may also be sought as civil protection under the Civil Code or the Commercial Code.

Two categories of infringement of trade secrets are recognized by the courts in Japan:

"Category A" infringements involve the *improper* acquisition of a trade secret, including:

- To acquire a trade secret wrongfully (such as by theft, fraud or threat) and to use or disclose it.
- To use or disclose a trade secret having acquired it with the knowledge that it has been acquired wrongfully (as above) or, having been grossly negligent in not knowing the secret was wrongfully acquired,

"Category B" infringements involve the misuse of a *properly acquired* trade secret, including:



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- To use or disclose a trade secret properly disclosed by its owner:
  - to compete unfairly in business;
  - to otherwise make illicit gain; or
  - to injure the holder

Unfair competition can include doing business in competition with the holder. For example, a current director of a Company A in a mail-order business sets up his own Company B, doing the same business. The director then runs the mail-order Company B using a list of customers from company A, having received it from an employee of company A.

Redress includes:

- Damages.
- Injunctions to stop further infringement against the person that infringed or is likely to infringe trade secrets. No claims for injunction are possible later than three years after the owner of the trade secret knew of the infringement or ten years since the infringement began.
- The destruction of infringing items incorporating the trade secret, as well as end-products created using the trade secret and the removal of any equipment used for the infringements.
- Criminal sanctions including imprisonment and fines.

The 2005 amendment to the Unfair Competition Protection Law gave stronger criminal protection of commercial secrets by:

- Introducing penalties for use or disclosure outside Japan.
- Introduction of penalties for retirees – previously the UCPA had been ineffective where a former employee, while in retirement disclosed a trade secret of his previous employer.
- Introduction of corporate penalties.

Third parties are liable for misappropriation if they knowingly or with gross negligence acquire, use or disclose a trade secret previously improperly acquired.

## Practical steps for protecting your trade secrets

Protecting your secret information in Japan does not differ from the precautions you would take in Australia or any country. As always, it is better to prevent infringement of your trade secrets in the first place than to try to enforce your rights after an infringement has occurred.

## Establish a confidentiality policy

- Define what information the company treats as confidential and how employees should handle such information.
- Clearly spell out the consequences of any unauthorized, improper use or disclosure of confidential information (e.g., grounds for termination of employment).
- All key personnel should sign confidentiality/non-disclosure Agreements, which specifically define information employees should keep secret and confidential, and obligations during and after employment, at the time of enrollment and retirement as well as the promotion or commencement of handling of specific trade secrets, depending on the situation.
- Designate a trade secret administrator who is responsible for control of protection of trade secrets. Provide regular training to employees on your company's confidentiality policy.
- Protect computer documents containing trade secrets with passwords. Maintain antivirus measures to your computer network, including servers and PC terminals. Restrict access to computer network and protect it by IDs and passwords.
- Monitor and keep records of access to trade secrets so that you can trace when and who accesses the trade secrets.
- Segregate trade secrets from any other information. Categorize the level of secrecy of respective trade secrets and provide the trade secret with protection depending on such level of secrecy. Limit the scope of personnel who may have access to different levels of trade secrets.



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- Dispose of media in which trade secrets are recorded by reliable means. Erase electromagnetic data in computer servers and any other storage device of data, including hard disk, by reliable means.

<http://www.meti.go.jp/policy/competition/trade-secret.html> (Japanese)

A translation of the UCPA is available at:

<http://www.cas.go.jp/jp/seisaku/hourei/data/ucpa.pdf>

## Strategies for Enforcement

- Implement a formal policy on ownership of IP rights existing in any artistic or literary works, designs or inventions created by the employee during employment.
- Ensure that each employee has received a copy of the confidentiality policy and signs a statement acknowledging that they have read, understand and will comply with it as a condition of their employment.
- Provide regular training to employees on your company's confidentiality policy.

See also the fact sheet in this series on Unfair Competition

### Disclaimer:

This information is intended to help the reader gain a basic understanding of some IP concepts. It is not designed to provide legal, business or other relevant professional advice. IP Australia recommends that you seek independent legal, business or other relevant specialist advice as necessary. This fact sheet has been developed in conjunction with Hodgkinson McInnes Patents.

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## Register what you can

While you can't formally register a trade secret as an IP right, *registration of intellectual property* is generally the strongest form of protection. You should consider having as many of your intellectual property rights as possible registered with the relevant authorities.

Trade secret protection does not necessarily rule out registration of closely related material as an intellectual property right, depending on many factors. An invention must be novel to patent it and must be fully disclosed, but know-how, developed in the practice of that patented invention, may be protected as a secret.

Registration of intellectual property rights and protection of commercial secrets should be an integral strategy for protecting the IP in your business.

## Further information

Note: The Intellectual Property Policy Office of the Ministry of Economy, Trade and Industry (METI) deals with matters related to the UCPA.