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Misappropriation of Trade Secrets by Foreign Company and Legal Recovery in Japanese Court – New Amendment to the Unfair Competition Act

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In recent years, we have seen numerous media reports on cases involving suspected misappropriation of trade secrets by foreign companies who have hired former Japanese engineers.

Given that Japanese law and Japanese jurisdiction have ambiguity as to their applicability in such circumstances, Japan's Unfair Competition Prevention Act (the "Unfair Competition Act") was amended in June 2023 with a view toward providing clarity in admitting the Japanese jurisdiction and the applicability of Japanese law.

I. Underlying issue

Often, Japanese engineers are offered opportunities to work for a foreign company on the expectation that they would bring along trade secrets obtained from former employment. Foreign companies offer better salaries and suggest that the employee bring along data containing Japanese trade secrets. Reports state that many such employees are summarily terminated after the employer has taken advantage of collecting trade secrets.

Such an act would constitute a tort, but it is not clear under what law and in what court such dispute should be adjudicated. Japanese conflict of laws rules are ambiguous as to whether Japanese law can apply in such instances because they call for the law of the "result of tort." In addition, the Japanese Civil Procedure Code is unclear as to whether such circumstances would come within the Japanese court's jurisdiction because it merely directs the court to review the "place of tort."

In order to provide express remedy, the Unfair Competition Act was recently amended to provide clear paths to seek legal redress in Japan applying Japanese law in Japanese court. But caution should be used in assessing its limited scope.

II. New Amendment

The amendment provides for Japanese jurisdiction and Japanese law application in such disputes in the following circumstances:

1. Jurisdiction of Japanese court:

The misappropriation of trade secrets owned by a Japanese business operator and controlled by the same party may be litigated in the Japanese court against the misappropriating party so long as the method of misappropriation falls within one of the following four designated categories (the "Designated Misappropriations," Unfair Competition Act, Article 19-2):

- Obtain trade secrets via theft, fraud, extortion or other inappropriate means or use or disclose trade secrets obtained through such inappropriate means;
- Obtain, use or disclose trade secrets that have been illegally obtained with the knowledge of such fact or not knowing it through gross negligence;
- Use or disclose trade secrets that have been properly disclosed by a holder of the same, for the purpose of illegal gain or damaging the disclosing party; and
- Obtain, use or disclose illegally disclosed trade secrets knowingly or not knowing it through gross negligence.

The Unfair Competition Act, Article 2, Items 4, 5, 7 and 8.

It will be an affirmative defense for the defendant that the trade secrets are offered for use exclusively outside of Japan.

a. Scope of application of the Jurisdictional Rule

- The Unfair Competition Act does not exclude the applicability of foreign jurisdictions. On that basis, the same dispute may be reviewed in different countries.
- Nor does it exclude the applicability of general jurisdictional provisions in the Civil Procedure Code. It means that Japanese jurisdiction may be recognized even without this amendment.
- The Unfair Competition Act does not exclude the contractual consent to a certain jurisdiction other than Japan.
- Article 19-2 of the Unfair Competition Act simply provides an additional jurisdiction as a special provision to general rules.

b. Anticipated issues for interpretation

“Trade secrets controlled in Japan” in this Article 19-2 can be arguably maintained in cloud operated by a foreign service provider but the data is controlled by a Japanese party. It is unclear whether such trade secrets would qualify as “being controlled in Japan,” but presumably, that would likely be recognized.

Would the defendants to the lawsuit include aiders and abettors of the misappropriating party? The statute merely states “against the party that committed unfair competition.” While not free from doubt, since the aider and abettor are committing unfair competition along with the perpetrator, there is no reason to exclude them.

Must the court independently investigate the elements of statutory requirements for the application? As a general matter, satisfaction of statutory requirements for jurisdictional rule is to be shown by the party bearing that burden. In this instance, however, the international misappropriation of trade secrets amendment was implemented because of the high public interest in the issue. On that basis, commentators have argued that the court should independently investigate the requirements. The level of proof likely to be required is the objective elements of the requirements only, because subjective elements are difficult to ascertain and are unfit to be examined at the outset.

2. Applicability of Japanese law:

Chapters I, II and IV of the Unfair Competition Act will apply to the Designated Misappropriations. Article 19-3. This article forms a special rule to the general conflict of laws rule (General Act on

Applicability of Laws), which is decided by referring to the place of result of tort. Article 19-3 of the Unfair Competition Act will supersede the general rule to apply specifically certain chapters of the Unfair Competition Act for the Designated Misappropriations.

a. Anticipated issues for interpretation

If Article 19-3 is not applicable, but the general conflict rules call for Japanese law, would it still be possible to apply the Unfair Competition Act? Commentators are split, but there should not be an issue in applying the Unfair Competition Act, which is a part of Japanese law, by going through the general conflict of laws rules.

A similar issue to the jurisdictional rule, i.e., whether the court must exercise independent power to decide on the application of Japanese law, is also debated. The rules advanced by this Article 19-3 of the Act are limited in scope as to what provisions of the Unfair Competition Act apply and therefore is a specific issue. This type of issue is unfit for the court to exert initiative because it is not a public policy-related issue *per se*, rather it is a specific application issue of the Designated Misappropriations. On that basis, the court should not exercise its independent powers to find whether this provision comes into play.

III. Takeaways

The new amendment to the Unfair Competition Act that Japanese court can adjudicate on the misappropriation of trade secrets by applying Japanese law was prompted by actual abuses of by hiring Japanese engineers moving trade secrets with them to a new foreign employer. Be that as it may, this amendment is mindful of international comity and is restrictive (or not as broad as expected) in the scope of application. Employers of new employees who used to work for a Japanese company or Japanese employers that had their employees leave for a foreign employer should review the statutory requirements carefully because not all suspicious situations are captured by this amendment.

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