The Legal Protection on Trade Secrets --A Review on the Laws and Practices of the U.S.A., Canada, West Germany, Japan, and the R.O.C.

by Lucius J. C. Sheu*

*The author is an instructor of law at the Tunghai University and Chinese Culture University in Taiwan, R.O.C. He worked as a researcher at the Patent Office of the Ministry of Economic Affairs from 1985 to 1986, as an associate researcher at the Council For Economic Planning and Development of the Executive Yuan from 1986 to 1990, and he was a delegate for the Sino-U.S. Intellectual Property Rights Consultations in 1987 and 1988.

Table of Contents

※本校法律研究所兼任副教授

I. Introduction

The absence of specific legal protection for trade secrets in the Republic of China has been cause for concern of many domestic and foreign businesses in Taiwan. Civil litigation between Microtek International Inc. and Umax Data System Inc.[1] involving the alleged copying of image scanner technology attracted a lot of attention among all sectors. This proves the crucial importance attaching to this special field of the protection of trade secrets.

In response to the growing concern over this problem, the Science & Technology Advisory Group of the Executive Yuan of the R.O.C. convened a conference on March 9, 1989. The discussions centered around the disclosure of trade secrets experienced by Electronics Research & Service Organization (ERSO) and Microtek International Inc. when their key employees left the company.

In this paper, I will first review the salient points concerning protection of trade secrets in the U.S.A., Canada, West Germany, and Japan, and then review the status of trade secrets protection in the Republic of China.

II. Trade Secret Defined

Before discussing the legal protection for trade secrets, I should clarify and define the term "trade secret".

All information, whether commercial or industrial, and regardless of the manner of its expression, is potentially the subject matter of a trade secret. Categories of trade secrets include (1) commercial and financial data, e.g., enterprise organization, collection and editing of data, or customer list. (2) technical data, e.g., computer programs, plans, or manufacturing methods. A trade secret may be embodied in any of a number of modes through which the information can be read by man or machine.

Trade secrets, know-how, and confidential information are frequently considered to be three aspects of the same concept, and courts in other countries have, in some cases, treated them as the same.[2] There are, however, some differences which I note as follows.

A trade secret, once disclosed by the original holder or a third person no longer retains the status of a trade secret. By contrast, confidential information, unless disclosed or otherwise made public by the original holder, does not lose its status as confidential information simply by its disclosure or publication by a third party.[3]

know-how differs from the other concepts in that know-how is generally comprised of knowledge or experience that with sufficient expenditure of time and other resources a competitor could develop on his own. That is to say know-how is not necessarily secret. For example, if one were to spend several weeks of research time in a library he may be able to come up with some specific information that another person considered know-how.

Based on the foregoing discussion, I have classified trade secrets and know-how as follows:

(1) Trade secret includes: industrial secrets and commercial secrets. This classification is followed in Japan and France.

(2) Know-how includes: industrial secret, technical assistance, services, and nonsecret knowledge and experience.

In the following discussion I have, for purposes of clarity, used "trade secret" in its broad generic sense.

III. Trade Secrets Protection in the U.S.A., Canada, West Germany and Japan[4]

A. U.S.A.

In recent years a series of court cases have brought trade secrets within the realm of intellectual property. Moreover, trade secrets are also recognized as objects of property rights in federal tax law.[5] With the enactment of the Uniform Trade Secrets Act which has now been adopted by more than twenty U.S. states[6] and in the light of court decisions culminating in the 1984 Supreme Court's holding in Ruckleshaus v. Monsanto Co.,[7] trade secrets have been officially recognized as a species of property. As a result, trade secrets can be the subject of attachment, security interest, and trust, and may pass to the trustee in bankruptcy as part of the bankrupt's business or be acquired by inheritance.[8]

Currently state laws in the U.S. treat trade secret as a civil property and more than twenty states provide specific criminal sanction in connection with theft of trade secrets.[9]

B. Canada

Canadian law does not presently mark off trade secrets as a subject area for separate legal attention. If a trade secret is to receive legal recognition and protection, it must, as the law stands, be under doctrines of general application. The most important of these are derived from the law of contract and equity.

The current situation is that acts which infringe on trade secrets are, in civil cases, the subject of judge-made law or precedent where the matter is sounded in tort. Currently there is no penalty under the Criminal Code for disclosure of trade secrets.

In the well known 1983 case, Regina v. Stewart, the accused offered money to a security guard to obtain the names, addresses, and telephone numbers of the employees of a hotel for union organizing purposes. Subsequently the Ontario Court of Appeal ruled that "information" constituted subject matter as contemplated by Article 283 (1) of the Canadian Criminal Code. However the Alberta Court of Appeal ruled to the contrary in a similar case.[10]

In 1988 the Supreme Court of Canada resolved the issue by ruling that "confidential information" is not property for the purposes of the criminal law and that stealing of information

could not therefore amount to theft under Article 283 (1) of the Criminal Code.[11]

The issue of this case was whether confidential information was "anything" under Article 283 (1). The court held that to be "anything" within the meaning of Article 283 (1) , the thing must be:

(1) Property of some sort.

(2) Property capable of being:

(a) taken (therefore intangibles were excluded); or

(b) converted (and may be an intangible);

(c) taken or converted in a way that deprives the owner of his proprietary interest in some way.

The court concluded that confidential information is not property. It is not capable of being taken or converted because the owner still retains the information.[12]

The court also recognized, however, that trade secrets could be sold, licensed, bequeathed, made the subject-matter of a trust, or passed to a trustee in bankruptcy, and in this respect did have some of the characteristics of property in the civil law.[13]

In 1984 the Federal/Provincial Working Party presented a draft "Civil Trade Secrets Protection Act". In July of 1986 the same group also recommended the addition of two new articles to the Criminal Code, making it an offense to fraudulently acquire, disclose or use confidential information, or to use fraudulent means in inducing another to disclose or use confidential information. Neither of these recommendations have been adopted till now.

C. West Germany

The majority of legal commentators in West Germany consider trade secrets to be "de facto assets"; a minority would refer to Paragraph (1) of Article 21 of West Germany's Act Against Restraints of Competition (July 27, 1957, last amended on April 26, 1980) to find industrial secrets to be "incomplete property rights".[14]

As to protection of trade secrets, West Germany's Act Against Unfair Competition (June 7, 1909, last amended on March 10, 1975) provides for civil damages at Article 19 and at Article 17, 18, and 20, provisions are made for criminal sanctions in instances of disclosing or inducing disclosure of trade secrets.[15]

D. Japan

Before the revision in June 1990 to the Unfair Competition Prevention Act,[16] legal protection for trade secrets in Japan was weak or nonexistent except for contractual enforceability of a non-disclosure agreement; provisions in the Civil Code and other statutes for civil remedies against unauthorized disclosure or misappropriation of trade secrets did not exist, nor did provisions in the Criminal Code to punish such acts.

Little mobility of employees from one company to another exists in Japan due to the prevalence of lifetime employment. Hence, there is little incidence of theft of trade secrets by employees and a paucity of court decisions.[17]

The most famous discussion of the legal status of trade secrets occurred in a 1966 judgment of the Tokyo High Court.[18] In that case the Tokyo High Court held that know-how has property value and yet it has not been recognized as a legal right; protection of know-how can only be achieved by the effort of the owner to maintain it as an industrial secret and prevent disclosure to others. Thus, while acknowledging the property value of know-how, the Tokyo High Court denied injunctive relief against a third party who willfully misappropriated the know-how on the ground that there was no statutory provision in support.[19]

On June 29, 1990, the revision of the Unfair Competition Prevention Act to incorporate a set of new provisions designed for granting injunctive remedies as well as damages against theft or misappropriation of trade secrets was promulgated. The revision sets forth paragraphs (3) and (4)[20] to Article 1 which provides an injunctive remedy against misappropriation of trade secret. A new paragraph, paragraph (3)[21] is added to Article 1 bis in order to enable the owner of trade secret to recover damages from the wrongdoer. Paragraph (4)[22], as renumbered, of Article 1 bis is revised to empower the court to order the defendant to take appropriate measures in order to restore the business reputation of the plaintiff in trade secret cases. However, it must be noted that Article 5 which provides penal sanctions against various acts of unfair competition remains as it is except the amount of fine[23], which means that there are still no provisions providing for criminal sanctions against misappropriation of trade secret.

Currently the courts in Japan still do not recognize know-how as property under the Civil Code. In practice, however, there is recognition of secrecy agreements entered into between workers and management where such agreement restricts disclosure of business secrets by the employee for a specified time after the employment ends. Such agreements have been deemed both reasonable and not in violation of public order and good morals.[24] The 1974 draft revision of the Japanese Criminal Code included, at Article 318, a provision on disclosure of business and technical secrets to curb industrial espionage. This provision has not yet been adopted however.[25]

IV. Trade Secrets Protection in the Republic of China

There is currently no specific law in the Republic of China governing protection of trade secrets; parties to disputes over trade secrets must therefore resort to other relevant laws. Such laws may be found in the Civil Code and Criminal Code.

A. Civil Liability

1. Breach of Contract

Where one of the parties to a secrecy agreement breaches the contract, the other party can seek civil damages. The problem in recovering damages is often one of proof and it is probably a good idea to specify penalties of unauthorized disclosure of trade secrets.

2. Infringement of Legal Interests (Civil Code Article 184, Paragraph 1, Second Sentence)

Article 184, the general tort provision of the R.O.C. Civil Code, may also be the basis of a civil action in case involving unauthorized disclosure of trade secrets. There is still some controversy as to whether a trade secret is a "right" under the Civil Code. The first sentence of Paragraph 1 of Article 184 states: "A person who, intentionally or by his own fault, wrongfully injures the rights of another is bound to compensate him for any damage arising therefrom." Most commentators believe that the provision can not be the basis of a claim for compensation in trade secret case because trade secret is not a "right" under the Civil Code. However, it is recognized that trade secret, at the least may be a "legal interest" such that the second sentence of Article 184's Paragraph 1 states: "The same rule applies when the injury is done intentionally in a manner contrary to the rules of good morals." There are no irrevocable final judgments known to this writer that have ruled on this issue.

One important case concerning legal status and protection on trade secrets has been decided by the Hsinchu District Court on January 24, 1990. The case is summarized and briefed in the following:

(1) Facts:

Microtek International Inc. (plaintiff) alleged that Umax Data System Inc. and six of its employees (defendants) were using the know-how developed and owned by the plaintiff and learned by these six employees while they were employed by the plaintiff, in producing image scanners.

The plaintiff demanded the removal and prevention of injury on the ground that the know-how is developed and owned by the plaintiff as rights of ownership or intangible property rights and defendants' using the know-how without the plaintiff's admission in producing and marketing image scanners infringed the rights of ownership or intangible property rights. The plaintiff also asked compensation for damages by way of forbidding defendants' further use of the know-how based on the second sentence of Paragraph 1 of Article 184 of the Civil Code.

(2) Issues:

Whether the plaintiff has the rights to prevent the defendants from disclosing and using the know-how at issue or not.

(3)Judgment:

Judgment for defendants.

(4) Reasons:

a. know-how, no matter how complicated and delicate may it be, is but a kind of knowledge existing in the human brain and is neither a tangible thing nor a natural power such as electricity, light or heat, should not be the subject matter of rights of ownership. The alleged rights of ownership to the know-how at issue asserted by the plaintiff is therefore ill-founded.

With regard to intangible property rights, otherwise called intellectual property rights, only trademark rights, patent rights and copyrights are recognized by the existing laws. Interests in know-how at issue do not amount to intellectual property rights as mentioned above.

For the foregoing reasons, know-how is not a species of property rights under existing laws and therefore concept concerning "one who exercises his property rights over a thing is a quasi-possessor" is impertinent to this case. Thus the plaintiff's claim of either owner's rights over things pursuant to Article 767 of the Civil Code or quasi-possessor's property rights over a thing pursuant to Paragraph 2 of Article 966 of the Civil Code to which Article 962 applies mutatis mutandis, demanding the defendants not to use the know-how is not in accordance with the law.

b. The plaintiff was not able to prove that the know-how at issue was originally developed and owned by it.

c. From the appraisal report issued by the ERSO, it was indeterminable as to whether the image scanners produced by the defendants were copied from those of the plaintiff. Therefore, the plaintiff's charge basing on the second sentence of Paragraph 1 of Article 184 of the Civil Code that the defendants intentionally injured the rights and/or interests of the plaintiff in a manner contrary to the rules of good morals is ill-founded.

B. Criminal Sanctions

1. Disclosure of Industrial or Commercial Secrets Obtained on Account of One's Occupation (Criminal Code Article 317)

This article provides for sanctions against a person who is required by law, regulation, or contract to preserve the industrial or commercial secrets of another which he knows or possesses because of his occupation and who discloses such secrets without good reason. It should be noted that if there is no relevant law, regulation, or contract, this provision is not applicable.

2. Larceny (Criminal Code Article 320 et seq.)

There is no basis for asserting liability for theft of the secret itself because the secret is not movable property within the meaning of the larceny law. Where the trade secret is embodied in, e.g., a computer printout and a thief steals the printout, he will have committed larceny. If, however, he returns the printout, perhaps after having made a copy, most commentators consider that this kind of "theft for use" is not larceny.

Theft of electricity is provided for in Article 323 of the Criminal Code: "Electricity shall be considered a movable within the meaning of this Chapter (Note: Chapter XXIX Offenses of Larceny)". Thus, if one were to use a terminal, printer, or telephone line to tap in to another party's data base, although theft of the information itself would not subject him to liability, he could nevertheless be held liable for larceny on account of his unauthorized use of another party's electricity.

3. Misappropriation (Criminal Code Article 335 et seq.)

A person who has custody of a thing (such as document or software) belonging to another and who misappropriates it with intent illegally to obtain possession for himself or for a third person is guilty of the crime of misappropriation (Article 335). This also affords indirect protection of trade secrets based upon the thing on or to which the secret is embodied or attached. Where the thing appropriated is in the person's custody because of his public functions, occupation, or for public benefits, the penalties are more severe (Article 336).

4. Breach of Trust (Criminal code Article 342)

A breach of trust is committed when a person who manages the affairs of another with intent to procure an illegal benefit for himself or for a third person or to harm the interests of his principal and who acts contrary to his duties and thereby causes loss to the property or other interest of such principal. This situation can easily occur in a corporate setting where the employees that have ready access to company secrets, know-how, and confidential information make disclosures to competitors outside of the company.

Changing jobs, headhunting, and "stealing" employees is becoming a more common phenomenon than it was in the past. The chances of upper echelon personnel disclosing important trade secrets of their company are correspondingly greater. Even if such employee does not intend to leave the company, he may very well do some moonlighting, and may intentionally or inadvertently disclose trade secrets of its principal employer. Companies should establish measures to prevent unauthorized leakage of information by such people.

C. Proposed Trade Secrets Legislation

From the foregoing survey it appears that unless the parties concerned have a secrecy agreement between them, current laws provide neither adequate nor direct protection for trade secrets. In order to correct this state of affairs the following draft criminal and civil provisions have been proposed.

1. Draft Amendments of the Criminal Code Article 317-1

The proposed draft states: "A person who is or was engaged in agriculture, industry or commerce and who intends to wrongfully obtain benefit for himself or for a third person or to harm the interests of another person, disclosed agricultural, industrial, or commercial produc-

tion or sales methods belonging to another, or other related technical secrets, such methods or secrets having become known to him on account of his occupation, shall be imprisoned for up to five years, detained; or in addition there to a fine not more than twenty thousand yuan may be imposed. The same shall apply when such person intends to use the secrets in connection with competing agricultural, industrial or commercial activity."

According to the legislative commentary the purpose of the law is to preserve normal development of agriculture, industry and commerce by penalizing those who "disclose" enterprise secrets of agriculture, industry or commerce with intent to procure illegal benefits and those who "use" enterprise secrets in order to compete in agriculture, industry or commerce. So called "enterprise secrets" refers to secrets that relate to the finances, personnel, production technology, sales, etc. of an agricultural, industrial, or commercial concern. The primary difference between this provision and current Article 317 is that it provides for sanctions against intentional disclosure or use of trade secrets in the absence of a specific contractual arrangement. This sort of provision would considerably enhance protection of trade secrets.

2. Draft Fair Trade law Article 19 Clause 5

Clause 5 of this Article prohibits an enterprise from the activities that are apprehended to constitute unfair competition of using "coercion, bribery or other improper means to obtain production or marketing secrets, information concerning transactional counterpart or other secrets relate to technique, of another enterprise."

The legislative commentary to the draft states that whereas the penal provisions in Article 317 of the Criminal Code are directed at the party who actually discloses secrets that are to be kept confidential, this law is directed at unfair competitive practices taken by one enterprise against another and which hinder the target enterprise's competitiveness. Civil liability is provided for in Chapter five of the law (Chapter Five Compensation - Articles 30 through 34). Criminal liability of the perpetrator is provided for under Article 36, and Article 38 provides for sanctions (fines) against juristic persons. This legislation is very similar to the 1975 revision in the West German law "Act Against Unfair Competition".

This review of the drafts of the Criminal Law and Fair Trade Law should provide some insight into the perceived significance of trade secrets. The scope of trade secrets is quite broad in the draft laws encompassing not only industrial secrets (such as production technology) commercial secrets (such as data concerning customer lists or personnel), but it even includes agricultural secrets (e.g., planting or harvesting techniques.).

V. Policy Considerations

A. Should a country revise her current laws or enact specific legislation for the better protection of trade secrets? Each approach has its merits and shortcomings. The former may

lack comprehensiveness while the latter may result in delays in enactment (witness the experience with the Fair Trade Law in the R.O.C.). The issue warrants careful consideration.

B. By its nature, a trade secret is withheld from the public. In theory, a trade secret may constitute a de facto monopoly in perpetuity. Two critical differences between trade secrets and patents are that the content of the latter must be laid open to the public as a condition of grant, and the term of a patent is for a limited duration. If too much protection is afforded to trade secrets, might this not lead to redundant investment of labor and resources resulting in an impediment to economic and social progress?

C. In trade secret related litigation the defendant will often assert "the public interest" to defend his disclosure. That is, he will say that the disclosure of the secrets was justified because it was done in the interest of society or for the common welfare. This is a common defense in trade secret litigation occurring in many countries.

If a trade secret is a recognized legal right or is a species of intellectual property, naturally it would be entitled to protection under the law. However, the grant by a government of certain exclusive rights to the proprietor of intellectual property is generally balanced by certain obligations imposed upon the grantee. Those obligations are imposed for the benefit of society. Thus a patent or copyright, while giving the owner something like a monoploy, does so only for a limited time after which the work is freely available for use by all. By protecting trade secrets however, the content of the secret may be hidden from the public forever.

Suppose a "secret of the ancestors", a cure for cancer for example, were not developed and used. Being a trade secret, the proprietor would have the legally sanctioned right to withhold information regarding this very important process. This could possibly violate the principle of law prohibiting the abuse of one's legal rights, stated in Article 148 of the Civil Code of the R.O.C. as follows: "Exercise of rights shall not be done in a manner that violates the public interest, nor shall a right be exercised for the main purpose of causing injury to another person. Exercise of rights and performance of obligations shall be in accordance with the rules of honesty and good faith." Should a law protecting trade secrets also provide for abuse of trade secrets? A compromise should be reached to balance the proprietor's interest in protecting the secret with the social and economic interests of society.

D. Article 15 of the Constitution of the R.O.C. states that the rights of work and property shall be guaranteed to the people. Employment agreements will often stipulate that upon termination of employment and for a specified period thereafter, the employee shall not disclose or use any of the employer's trade secrets. This is basically a prohibition on an employee from freely seeking other work in his chosen profession and the field in which he is most qualified. This may violate the fundamental spirit of the constitutional guarantee of the right to

work.

From anther perspective, if such agreements are not enforceable, a former employee could use trade secrets to the detriment of his ex-employer.This might violate the constitution's guarantee to protect the people's (i.e., employer's) property rights.

In light of these comments careful consideration should be given to the appropriateness of proposed Article 317-1 of the Criminal Code of the R.O.C. which would prohibit a worker in almost any industry from disclosing or using any trade secret learned in the course of his previous employment. The Japanese practice of permitting a contract with employees to restrict "for a specified period of time" the emplyee's disclosure of trade secrets, is worth of reference when seeking a balance between the employee's right to work and use his skills, knowledge and experience and the property rights of the employer.

E. Where legislation is enacted that makes it a crime to disclose industrial and commercial secrets, should the law apply to the situation where an employee reports the violation of a law by his company? Scholars and other commentators have taken both sides in the debate.

VI. Conclusion

In conclusion, I suggest that safeguarding trade secrets enhances the transfer of technology, which in turn brings substantial benefits for economic development in developing countries.

Trade secret legislation implicates the interest of both labor and capital. It also involves preservation of the national economic order. The theoretical and practical issues and problems are formidable but well worth our efforts to seek the best possible solution. These efforts will rely on the participation from all interested sectors of society.

[P.S. This paper was completed in October 1990. The Fair Trade Law mentioned in the paper has been promulgated on February 4, 1991.]

Footnotes:

1. Hsinchu District Court, 1988 Su-Zi-No. 579.
2. Richard A. Brait, "The Law Relating to Confidential Information in Canada," les Nouvelles, Vol. XXIII, No. 4 (1988), les News, p.18. ,c
3. Michael J. Hutter, "Drafting Enforceable Employee Non-competition Agreements to Protect Confidential Business Information: A Lawyer's Practical Approach to the Case Law, " Intellectual Property Law Review, 1981, Note 3, p. 327.
4. see Lucius J. C. Sheu, "The Legal Status of Trade Secret and its Protection," Socioeconomic Law and Institution Review, No. 1, January 1988, pp. 205-215.
5. Comptroller of the Treasury v. Equitable Trust Co. 296 Md. 459 (1983).
6. R. Grant Hammond, "The Winds of Change in Canada: Proposals for a Legislative Regime in the Law of Trade Secrets," Trade Secret L. Rptr., Nov. 1986, p. 121.
7. 81 L. Ed. 815.
8. S. J. Soltysinski, "Are Trade Secrets Property?," International Review of Industrial Property and Copyright Law, Vol. 17, No. 3, 1986, p. 332.
9. Roger M. Milgrim, "Trade Secrets: Invisible, Invaluable Assets," Patent Law Review, 1974, p. 17.
10. R. v. Stewart, (1983) 149 D. L. R. (3d) 583; also see Hammond, "Theft of Information," (1984) 100 L. Q. R. 252; Hammond, "Electronic Crime in Canadian Courts," (1986) 6 Oxford J. Legal Studies 145.
11. R. v. Stewart, (1988) S. C. J. No. 45, 85 N. R. 171.
12. Donald M. Cameron, "The Challenge: Emerging Technologies," les Nouvelles, Vol. XXIV No. 3 (1989), p. 145.
13. Brait, op. cit. p. 18.
14. Paragraph (1) of Article 2' of the West Germany's Act Against Restraints of Competition reads as follows:

    "Article 20 shall apply mutatis mutandis to agreements concerning the assignment or the exploitation of legally unprotected inventions, manufacturing processes, technical designs, and other technological achievements, as well as legally unprotected advances in cultivation methods in the field of plant breeding, insofar as they constitute trade secrets."
15. Provisions of Article 17, 18, 19, and 20 of the West Germany's Act Against Unfair Competition are as follows:

    Article 17 (Disclosure of Trade or Industrial Secrets)

    (1) A punishmnet of imprisonment not exceeding three years or a fine shall be imposed upon any employee, workman, or apprentice of a business enterprise who during the

term of his employment relationship, without authorization, communicates to a third party a trade or industrial secret that has been confided to him or made available to him by virtue of his employment relationship, if he does so for purposes of competition or for personal gain or with the intention of damaging the proprietor of the business.

(2) The same punishment shall be imposed upon anyone who makes unauthorized use of or communicates to a third party, for purposes of competition or for personal gain, a trade or industrial secret, the knowledge of which he has gained through one of the communications designated in Paragraph (1) or through his own acts in violation of the law or honest practices.

(3) If the perpetrator knows at the time of communication that the secret is to be used in a foreign country, or if he himself makes use of it in a foreign country, he may be sentenced to imprisonment not exceeding five years or to a fine.

(4) The provisions of Paragraphs (1) to (3) also apply where the recipient of the communication, without the knowledge of the perpetrator, alreadv knows the secret or has authorized access to it.

Article 18 (Improper use of Technical Papers)

A punishment of imprisonment not exceeding two years or a fine shall be imposed upon anyone who, for purposes of competition or for personal gain, makes unauthorized use of or communicates to third parties, models or instructions of a technical nature, in particular, drawings, prototypes, patterns, cuts, or recipes, that have been confided to him in the course of business. Article 17 (4) shall apply mutatis mutandis.

Article 19 (Damage Liability)

Violations of the provisions of Articles 17 and 18 also result in liability for damages caused thereby. Where there are several parties, they are jointly and severally liable.

Article 20 (Inducement or Offer to Violate)

(1) Anyone who, for purposes of competition or for personal gain, a, drawings, prototypes, patterns, cuts, or recipes, that have been confided to him in the course of business. Article 17 (4) shall apply mutatis mutandis.

Article 19 (Damage Liability)

Violations of the provisions of Articles 17 and 18 also result in liability for damages caused thereby. Where there are several parties, they are jointly and severally liable.

Article 20 (Inducement or Offer to Violate)

(1) Anyone who, for purposes of competition or for personal gain, attempts to induce another to violate Article 17 or 18 or accepts the offer of another to commit such a violation, shall be punished with imprisonment not exceeding two years or with a fine.

(2) The same punishment applies to anyone, who for purposes of competition or for personal gain offers to commit acts in violation of Article 17 or 18, or declares himself ready to commit such acts at the behest of another.

16. In 1934, Japan enacted the Unfair Competition Prevention Act (Law No. 14, 1934) modeled after the German Act Against Unfair Competition. However, the definition of unfair competitive activities (Article 1) did not encompass misappropriation of trade secrets. This was a major difference between the Japanese 1934 legislation and its West German counterpart.

17. see Jorda, "International Trade Secret Protection," Intellectual property (Patents, Copyrights, Trademark), Vol. 1, Washington, D. C.: International Law Institute, 1987, p. 622.

18. Deutsche Werft Aktiengesellschaft v. Chuetsu-Waukesha Yugen kaisha, 1966.

19. Jorda, op. cit. p. 622.

20. Paragraphs (3) and (4) of Article 1 read as follows:

(3) An entrepreneur who holds a production method, marketing method or other technical or trade information useful for business activities which is kept in secrecy and not publicly known (hereinafter referred to as "trade secret"), when he finds a person who is doing or going to do any act that falls under any one of the following items (hereinafter referred to as an "unfair act involving trade secret"), and where his business interest is likely to be harmed by such unfair act involving trade secret, may claim cessation or prevention of such unfair act involving trade secret:

(i) An act of acquiring trade secret by theft, fraud, duress or other unfair means (hereinafter referred to as an "unfair act of acquiring trade secret) or an act of using or disclosing such acquired trade secret (including showing it to a specific person while maintaining the secrecy);

(ii) An act of acquiring trade secret with knowledge that there is an intervening unfair act of acquisition involving such trade secret or not knowing it in gross negligence or an act of using or disclosing such acquired trade secret;

(iii) An act of using or disclosing trade secret after its acquisition with the knowledge that there is an intervening unfair act of acquisition involving such trade secret or not knowing it in gross negligence;

(iv) An act of using trade secret shown by the holder for the purpose of doing unfair competition or other act of making unfair profit or inflicting injury upon the holder or an act of disclosing it for such purpose;

(v) An act of acquiring trade secret with the knowledge that it constitutes an unfair act of disclosure of trade secret (meaning an act of disclosure referred to in the preceding item

or an act of disclosing trade secret in breach of a legal obligation to maintain secrecy; the same applies in subsequent provisions) or there is an intervening unfair act of disclosing trade secret or not knowing it in gross negligence or an act of using or disclosing such acquired trade secret;

(vi) An act of using or disclosing trade secret, after its acquisition, with the knowledge that it constitutes an unfair act of disclosing trade secret or there is an intervening unfair act of disclosing trade secret or not knowing it in gross negligence.

(4) The holder, when he makes a claim under the provisions of the preceding paragraph, may also claim the destruction of the things that constituted unfair act involving trade secret (including the medium that embody the trade secret), the product of unfair act involving trade secret or other measures necessary for the suspension or prevention of unfair act relating to trade secret.

21. Paragraph (3) of Article 1 bis provides as follows:

(3) A person who has intentionally or negligently inflicted an injury to the business interest of another by an unfair act involving trade secret shall be liable for damages; provided, however, that this shall not apply to injures caused by an act of using the trade secret after the termination of the right to claim cessation or prevention of an act of using trade secret referred to in each item of Paragraph (3) of the preceding Article under Article 3 bis.

22. Paragraph (4) of Article 1 bis reads as follows:

(4) Against a person who has injured the business good will of another by an act which falls under item (i) or (ii) of Paragraph (1) of the preceding Article or Paragraph (2) of the same Article or by an unfair act involving trade secret, or a person who has done an act which falls under item (vi) , Paragraph (1) of the same Article, the court, upon a claim being filed by the injured person, may order to take measures necessary for restoring his business goodwill in lieu of or together with damages.

23. Teruo Doi, "The New Trade Secret Statute of Japan," Patents & Licensing, June, 1990, p. 9.

24. Yugen Kaisha Forseco Japan, Ltd. v. Okuno and Daimatsu, see Jorda, op. cit. pp. 622-623.

25. Article 318 of the Draft Revised Criminal Code of Japan punishes an officer or employee of an enterpri