

Karen A. Magri

There is an increasing recognition of the importance of trade secrets and trade secret protection in the United States and abroad. It has been estimated that the majority of working technologies worldwide is protected as a trade secret rather than by patent. Both the North American Free Trade Agreement (NAFTA) and the Agreement on Trade Related Aspects of Intellectual Property (TRIPs) ratified during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) include specific provisions directed toward increasing the protection of trade secrets. Furthermore, in the past ten to fifteen years, there has been a trend toward the adoption of domestic statutes specifically directed at the increased protection of trade secrets, particularly among Asian nations.

The purpose of this review is not to provide a comprehensive survey of the trade secret laws of specific nations. The reader is referred to a multi-volume treatise, *WORLDWIDE TRADE SECRETS LAW* (Terrence F. MacLaren ed., 1993), which provides such coverage. Instead, the primary focus will be to highlight for American legal practitioners and others who manage intellectual property assets some of the important aspects of trade secrets law in foreign jurisdictions, with a particular emphasis on the current laws of Europe and Japan.

I. Introduction.

There is no global law of trade secrets or even a definition of what constitutes a trade secret. Moreover, unlike the case for patent, copyright, and trademark law there are no comprehensive international treaties pertaining to trade secrets. NAFTA (Art. 1711) and TRIPs (Art. 39) provide only brief attention to the topic. Prior to these agreements, Article 10*bis* of the Paris Convention (covering unfair competition) provided a potential source of support for international standards of trade secret protection, but the language of this provision is only poorly-suited for this purpose.

What does appear to be universally accepted is that to be protected as a trade secret, the subject matter must be kept "secret" – although there is some variation in how that term is construed. The *RESTATEMENT OF TORTS* provides a definition that represents a fairly good approximation of the international consensus: "As a general rule, a trade secret can be any information not commonly known in the relevant industry that is used in connection with a business to obtain a competitive advantage and the information is secret, is identifiable, and is not readily ascertainable." This general rule being stated, it is cautioned that the subject matter that can be protected as a trade secret will differ among nations, with some (*e.g.*, the Philippines) providing no legal protection for trade secrets at all.

As the leading exporter of technology (including trade secrets) worldwide, the United States is increasingly concerned with strengthening international standards for the protection of trade secrets. The United States has been aggressive in demanding stronger trade secret protection of American technology by foreign countries. These efforts have been relatively successful: the United States prevailed in bringing intellectual property issues under the rubric of international trade and the GATT. In addition, many Asian nations have enacted new trade secret laws (often providing legal recognition of trade secrets for the first time) as a result of threats by the United States to impose trade sanctions for failing to provide adequate protection of American intellectual property within their borders.

Nonetheless, those in the American legal and business communities may find identification of the law of trade secrets in foreign jurisdictions to be elusive. As is true in the United States, legal protection of trade secrets in other nations can be derived from many diverse sources of law. For example, a cause of action for misappropriation of trade secrets may lie in contract law, tort law, unfair competition law, criminal law, and the laws governing

employee/employer relations and fiduciary obligations. The amorphous nature of trade secrets law often presents a challenge, and potential pitfalls, to American businesses that seek to operate in foreign jurisdictions or enter international markets.

II. Protecting Trade Secrets in a Foreign Legal and Business Environment.

In 1977, Coca-Cola walked out on its Indian operations in order to protect the "secret formula" for its soft drink. Coke had been operating in India for twenty-five years, and the Indian market of 550 million potential consumers was a lucrative one. The problem arose because Indian law at that time required transfer of technology held by foreign corporations operating in India to Indian-controlled enterprises. The Indian government demanded that Coke turn over 60% of its Indian subsidiary to Indian shareholders and divulge its technology (*i.e.*, the secret formula) or end its operations in India. Coke argued unsuccessfully that its secret formula was a trade secret and not "technology". The dispute ended when Coke abandoned its investment in India, at an enormous cost, rather than divulge its trade secret.

This episode highlights the potential dangers to American enterprises that operate in foreign legal and business environments. Trade secret assets can be compromised through foreign practices or laws that are not directly related to intellectual property *per se*, and which can prove a pitfall for the unwary. India is not the only country that requires foreign businesses to enter into joint ventures with domestic companies as a form of compulsory technology transfer. Such arrangements are often beneficial in that the local enterprise is familiar with the domestic laws and business practices. On the other hand, joint ventures expose the foreign partner to the risk of sharing its technology, including trade secrets, with others.

Thus, despite the increasing global harmonization of intellectual property laws, Americans operating abroad cannot assume that they can conduct business as they do in the United States. For example, both Japanese and German law mandates public trials. Protective orders, redaction, and in camera review of confidential information is not routinely available in either of these countries. Moreover, to seek redress for misappropriation of a trade secret, it is necessary to disclose the trade secret itself. Another instance in which trade secret rights may be at risk comes when confidential information is submitted for agency review. The pharmaceutical industry has cited Australia, among other countries, as providing inadequate protection to trade secret information submitted to the government for safety and efficacy reviews. Finally, in China, any license agreement concerning trade secret information must receive government approval. Failure to obtain such approval will result in a forfeiture of the trade secret rights after ten years, at which time the licensee is free to use the trade secret and disclose the proprietary information to others. A similar law in Korea has only recently been changed.

These examples suggest some ways in which exporting of American trade secrets can expose valuable intellectual property assets to risk. The question also arises as to how widespread will the effects of foreign disclosure of a trade secret be? In view of the increasingly global nature of communications, culture and markets, will disclosure of a trade secret outside of the United States forfeit trade secret rights in the United States, or even worldwide?

The remainder of this paper will primarily be devoted to considering specific aspects of trade secrets protection in countries of particular interest to American businesses – the countries of the European Community and Japan.

III. The European Community.

In general, trade secrets are afforded a high level of protection in the European Community (EC). Under the European Patent Convention, trade secrets are generally referred to as "know-how", which is defined as a "body of technical information that is secret, substantial, and identified in any appropriate form." Secret means "not generally

known or easily accessible." The requirement that the trade secret be "identified in any appropriate form" essentially means that evidence of the trade secret's existence must be fixed in a tangible medium (e.g., paper documents, electronic media, etc.) to be legally recognized.

American enterprises have a great deal of experience in operating in Europe. While there are probably more similarities than differences between the trade secret laws of the United States and the nations of the EC, there are also some important differences of which to be aware. The following discussion attempts to point out some important considerations relevant to trade secret protection in Europe. It should be noted that many of the issues discussed below with respect to Europe are also relevant to many other nations.

Source of Law. The most obvious point to begin when evaluating the legal protection of trade secrets in a particular country is to identify and study the domestic laws governing trade secrets. As noted above, identifying national trade secret law is not always an easy task. In addition, consideration must be given to whether the country has a common law or civil law system. The United Kingdom is a common law country, and there is no statutory law of trade secrets. The other European nations follow the civil law system. Although Americans are comfortable with the common law, it may be more difficult to determine the status of the law on a particular question when the law is embodied in judicial precedent. On the other hand, the situation in civil law countries may not be any more clear. One treatise on international trade secret law noted that the German law of trade secrets is composed of so many disparate and unrelated statutes pieced together, that it is almost impossible to identify any body of trade secret law in that country. Moreover, as discussed below with respect to the Japanese legal system, Americans may be frustrated by the reluctance of civil law judges to apply the law to situations that are not clearly addressed by the statutory code. As a final point, the European Court of Justice will apply national law when adjudicating trade secret disputes.

Unpatentable Subject Matter. Trade secret protection in Europe takes on added importance because of differences between the American and European patent systems. Technologies that are usually protected by patents in the United States may be more suited to trade secret protection in the context of foreign jurisdictions. Patent protection may not be available at all for some technologies in Europe. For example, animal and many plant varieties are excluded from patent protection. Methods of medical diagnosis or treatment are also not patentable, although alternative methods of patenting these technologies are often available. Pharmaceuticals and computer-related technologies may not be patentable in some European countries.

Protecting a technology as a proprietary secret may be an attractive alternative to patent protection, even when a patent is available on the technology. In Europe, the patent application is published prior to issue, which gives lead time to competitors worldwide to copy the technology. In addition, pre-issuance opposition procedures, long patent pendency after publication, and poor enforcement of patents may all detract from the efficacy of patent protection under foreign patent systems. In these situations, maintaining the technology as a trade secret may be preferable to public disclosure attendant to obtaining patent protection.

The Effects of "Secret Prior Art". For those inventions that will be commercialized outside of the United States, it may be advantageous to maintain the technology as a trade secret even after a patent application has been filed. In the United States, once a patent application has been filed, many inventors feel free to discuss their technology, for example, with potential licensees. This practice can be dangerous in the international context. Early disclosure of the invention, even after the filing of a patent application in the United States or Europe, will expose the American inventor to the risk that third parties will file patent applications on obvious variations of the invention in the European Patent Office.

The issue revolves around the offensive uses of a patent application as prior art against

later-filed applications. United States patent law departs from European law significantly in this respect. In the United States, a patent application that is filed earlier and issues later than a second application, may be applied under 35 U.S.C. § 102 (e) as prior art once the patent issues. This is known as "secret prior art" because the application is not publicly available prior to issuance. Under 35 U.S.C. § 102 (e) and § 103, once a patent issues, it can be used as defeating prior art on the grounds of both novelty and obviousness as of its filing date.

The filing of a patent application in Europe, and much of the rest of the world, has a very different effect. Under Articles 54 and 56 of the European Patent Convention, once an application is filed it can *only* act as an anticipatory reference. It is not until publication that it can be combined with other references to defeat a later-filed application on the grounds of obviousness (*i.e.*, lack of inventive step).

Thus, even once a patent application has been filed in the United States or in Europe, it may be prudent to maintain the technology as a trade secret, at least until publication. Otherwise, it is possible (and legal) for a competitor to file a patent application outside of the United States on an obvious variation of the invention, as long as there has been no public disclosure that can be applied as prior art. At a minimum, all discussions with potential licensees should be pursuant to confidentiality and nondisclosure agreements. Even with these safeguards in place, however, it may be impossible to enforce by contract an agreement to keep a third party, such as a licensee, from filing a patent application to obvious variations of the invention outside of the United States.

Prior User Rights. Prior user rights represent another important difference in the interface between trade secret and patent law in most foreign countries as compared with the United States, and most European countries provide for prior user rights. A prior user right allows one who is practicing the invention prior to the filing of a patent application by a later user to continue to practice the invention, even if a patent issues to the later user on the technology. In most countries, the prior user must have commercialized the technology, or made substantial steps to do so, as of the priority date of the patent. The standard in France, however, is particularly lenient -- all that is required is that the prior user have "possession" of the technology. Thus, prior user rights represent an important exception to the exclusive rights conferred by a patent. The breadth of the prior user right varies among countries, but in general the right is limited to the uses that existed as of the priority date of the patent. In addition, the right is personal in nature and cannot be transferred (*e.g.*, licensed) independent of the business with which it is associated. It should be noted that in many cases the prior use rises to the level of an invalidating use against the patent.

In actuality, a prior user right is not an affirmative right at all; it is defense to a claim of infringement. Prior user rights eliminate some of the risks attendant to choosing to maintain a patentable technology as a trade secret. The American manufacturing industry has praised the prior user right system as providing certainty to investments in manufacturing technologies and capacity. On the other hand, the president of the Association of University and Technology Managers (AUTM) has stated in hearings before Congress that prior user rights are disadvantageous to universities and small businesses, which are slower to commercialize their technologies and often do not commercialize their technologies themselves.

Prior user rights are permitted, but not required, by Article 30 of the TRIPs agreement. There has been on-going discussion of adopting a prior user right in the United States, in particular in conjunction with the first-to-file system of patent priority. Many commentators believe that recognition of a prior user right is a necessary accompaniment to the adoption of a first-to-file system, so as to moderate the potentially harsh effects in the situation of a first inventor who files later in the patent office. There have been very few reported cases involving prior user rights in Europe. Frequently, the issue is whether the prior use invalidates the patent, rather than whether the prior user can continue to practice the invention. As a result, it is believed that most disputes arising over prior user rights are

settled by granting a nonexclusive license to the prior user, rather than by risking invalidation of the patent during litigation.

IV. Japan.

Japan implemented its present, and first, trade secret law on June 1, 1991. Prior to this time, there was no specific law directed to the protection of trade secrets in Japan. This under-protection of trade secrets is consonant with the historically weak protection of intellectual property rights in Japan. Commentators have often observed that the function of intellectual property in Japan is diametrically opposed to its role in the United States. These differences are often a source of frustration for American innovators in Japan. The United States has an individualistic winner-take-all approach to intellectual property. In Japan, the intellectual property system acts to rapidly disseminate information and new technologies throughout the relevant industry. In an intellectual property system that aims to spread information, it is not surprising that there would be only weak legal protection of trade secrets. Widespread cross-licensing and sharing of technology is the norm in Japan; what is unusual is the withholding of technology as a trade secret by one enterprise to the exclusion of its competitors.

Historical Approach to Trade Secrets in Japan. Prior to 1991, there was no specific recognition of trade secrets under Japanese law. Relief was potentially available under contract law, as well as unfair competition law, fiduciary law, and in rare instances, criminal law. There were, and remain, serious deficiencies in seeking to redress trade secret misappropriation under a breach of contract theory. If an employee or licensee stole trade secret information, there would be an action for breach of contract. In at least the case of the employee, relief would also be available as a breach of fiduciary obligations. However, there was no liability whatsoever as to third parties that were not in contractual privity with the trade secret holder. Thus, if the employee or licensee disclosed the trade secret to a third party, such as a competitor, no relief was available from the third party. Other common instances of trade secret misappropriation by third parties involved employees, joint venture partners, and subcontractors of a licensee. In the absence of contractual privity, relief was occasionally available under tort theories.

In addition, prior to the present law, injunctions were only available in Japan to prevent further disclosure or use of the trade secret in a breach of contract action – this remedy could not be applied to third parties. In the United States, both preliminary and permanent injunctions are considered essential for adequate protection of trade secrets. The theory is that monetary damages cannot compensate for the irreparable harm that comes from divulging of the proprietary information.

In light of the deficiencies of the previous Japanese regime regarding trade secrets, it is not surprising that only a handful of cases were litigated before the implementation of the present law. The difficulties of fitting the inadequate existing legal theories to trade secret misappropriation were exacerbated because Japan is a civil law country. Japanese judges will not engage in judicial law-making as is customary in the United States. American plaintiffs alleging trade secret theft were often frustrated by the refusal of Japanese courts to extend existing law to achieve what they perceived to be fair outcomes.

The 1990 Amendments to the Japanese Law of Unfair Competition. The present trade secret law in Japan was promulgated by the June 29, 1990 amendments to the Japanese Unfair Competition Prevention law. The impetus behind the amendments has widely been attributed to three sources. First, the United States and other countries were pressuring Japan to provide stronger protection of their intellectual property in Japan. Second, since the 1990s, Japanese industries have been evolving from relying on "copycat" technologies to indigenous technology creation. With the rise of Japanese innovation, there has been a corresponding demand by Japanese businesses for stronger intellectual property laws in Japan. Finally, there have been major shifts in employment patterns in Japan, which have increased the importance of trade secret laws to Japanese businesses. Lifetime employment has traditionally been the norm in Japan. Employee

mobility is one of the most common sources of trade secret disputes, thus, trade secret misappropriation has historically been of little concern to the Japanese. As the lifetime system of employment is becoming less prevalent in Japan, there is more concern over technologies being carried by former employees to competitors.

Article 1 (3) of the amended Japanese Unfair Competition law provides trade secret protection to any "manufacturing method, marketing method or other technical or business information useful in commercial activity." This standard is similar to that of the Uniform Trade Secrets Act in the United States, but is broader because it explicitly protects business information. The secrecy requirement in Japan may be stricter than in the United States as it is unclear whether reasonable efforts to maintain secrecy will be sufficient or whether absolute secrecy is required.

The Japanese law takes a somewhat unusual approach to trade secrets. The law does not recognize trade secrets as property rights that can be asserted against others, rather the law proscribes six kinds of "unfair acts" of acquiring, disclosing or using the trade secret that cause harm to a trade secret holder. These acts are similar to the "improper means of appropriation" under the Uniform Trade Secrets Act. Significantly, the new law expressly authorizes third party liability and injunctions. Compensatory, but not punitive, damages are also provided. Other measures to restore goodwill, such as a public apology (a common form of relief in Japan), are also available.

On its face, the Japanese law provides a level of trade secret protection similar to that in the United States and other Western nations. Nonetheless, there are outstanding deficiencies in the current legal regime of trade secret protection. Of primary importance, the new law makes no provision for protecting trade secrets during litigation. The Japanese constitution requires all court proceedings to be open to the public. There is no provision in Japanese law for protective orders or other means of maintaining confidential information in secrecy. In order to assert a claim for trade secret misappropriation in Japan, it is necessary to disclose the trade secret; in the absence of protective measures, this will be tantamount to a complete public divulgence of the trade secret. The TRIPs agreement explicitly requires that protective orders be available to protect trade secrets. Under the Japanese constitution, international agreements ratified by Japan are self-executing and have the force of law in Japan. It remains to be seen whether Japanese judges will view TRIPs as a mandate to provide stronger protection of trade secrets during court proceedings.

The apparent strength of the third party liability provisions are also subject to some significant limitations. Under the new Japanese law, a third party is liable for misappropriation of a trade secret if it knew or was *grossly negligent* in not knowing that an improper act was involved in acquiring the trade secret. Thus, the law only provides liability in the case of actual knowledge or a grossly unreasonable failure to have knowledge of the misappropriation. Furthermore, Article 2 (v) creates an expansive exception to the rule of third party liability. If a third party acquires misappropriated information in good faith through a transaction, it may continue to use the information, even once it obtains knowledge of the improper appropriation of the trade secret. It may also disclose the information to licensees or subcontractors. The only requirement for the exception to apply is that a transaction be involved. Hiring a competitor's employee does not qualify as a transaction, but purchasing or licensing of technology does. The purpose of this exception is to preserve the stability of transactions involving information, but the effect is to essentially eliminate any force of the new third party liability provisions outside the realm of employee relations.

Trade Secrets as an Alternative to Patent Protection in Japan. Many Americans and other Westerners find the Japanese patent system to be lacking, claiming that it is expensive, lengthy and ineffective. Narrow claim interpretation and "patent flooding" (discussed in the following paragraph) further detract from the attractiveness of the Japanese patent system. Accordingly, the benefits of maintaining technology as a trade secret in Japan, as an alternative to patent protection, may outweigh the difficulties of

enforcing trade secret rights in court. Even if patent protection is sought, the need to maintain the technology as a trade secret prior to publication of the patent application is particularly true in Japan.

Japanese courts give patent claims a very narrow scope. This has facilitated the common practice of "patent flooding" -- the surrounding of a core technology by literally hundreds of patents to variations on the technology that would seem obvious to those familiar with the American patent system. The original innovator will often find itself in a position where it cannot practice the invention without acceding to demands to cross-licenses by those holding the surrounding patents. If a decision has been made to file a patent application, there may be no way to prevent patent flooding and near-copying by competitors in Japan, but maintaining the technology in secrecy as long as possible (e.g., until a U.S. patent is issued or a non-U.S. patent application is published) may be advantageous to maximize lead-time for those inventions for which patent protection will be sought in Japan.

V. Conclusion.

The foregoing discussion has attempted to highlight some important differences in the law and business practices affecting trade secrets in Europe and Japan as compared with the United States. When entering foreign jurisdictions or markets, it is imperative to become familiar with the prevalent law and practices so as to avoid divulging and forfeiting trade secret protection, potentially worldwide. In particular, consideration should be given to the source of the local trade secrets law, the treatment of prior user rights and secret prior art, and the availability of third party remedies, injunctions, and mechanisms to preserve secrecy of proprietary information during court proceedings. Only after the consideration of these factors can informed decisions regarding the management of trade secrets outside of the United States be made.

References:

WORLDWIDE TRADE SECRETS LAW (Terrence F. MacLaren ed., 1993).

Timothy C. Bickham, *Protecting U.S. Intellectual Property Rights Abroad with Special 301*, 23 AIPLA Q. J. 195 (1995).

Margaret A. Boulware et al., *An Overview of Intellectual Property Rights Abroad*, 16 HOUS. J. INT'L L. 441 (1994).

Lisa M. Brownlee, *Trade Secret Use of Patentable Inventions, Prior User Rights and Patent Law Harmonization: An Analysis and Proposal*, 72 J. PAT.& TRADEMARK OFF. SOC'Y 519 (1990).

Melvin F. Jager, *A Comparison of Trade Secret Laws in Asia*, LES NOUVELLES, June 1997, at 54.

Karl F. Jorda, *The Rights of the First Inventor-Trade Secret User as Against Those of the Second Inventor-Patentee (Part II)*, 61 J. PAT.& TRADEMARK OFF. SOC'Y 593 (1979).

Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 AIPLA Q. J. 213 (1993).

Kazuko Matsuo, *Recent Amendment to the Unfair Competition Prevention Law for the Protection of Trade Secrets*, 9 UCLA PAC. BASIN L.J. 78 (1991). **The amended version of the Japanese Unfair Competition Prevention Law is in the Appendix to this paper.

M. Margaret McKeown, *Japan Views Options to Increase Protection of its Trade Secrets*, NAT'L L. J., Nov. 1, 1993, at S4.

Frank E. Robbins, *The Rights of the First Inventor-Trade Secret User as Against Those of*

the Second Inventor-Patentee (Part I), , 61 J. PAT.& TRADEMARK OFF. SOC'Y 574 (1979).

Dan Rosen & Chikako Usui, *Japan: The Social Structure of Japanese Intellectual Property Law*, 13 UCLA PAC. BASIN L. J. 32 (1994).

Kenneth. D. Sibley & Martin G. Horner, *Pursuing Patent Protection in the European Market*, 42 SIM INDUS. MICROBIOLOGY 188 (1992).

Donald M. Spero, *Patent Protection or Piracy -- A CEO Views Japan*, HARV. BUS. REV., Sept.-Oct. 1990, at 58.

Holly. E. Svetz, *Japan's New Trade Secret Law: We Asked for It -- Now What Have we Got?*, 26 GW J. INT'L L. & ECON. 413 (1992).

William S. Thompson, *Reforming the Patent System for the 21st Century*, 21 AIPLA Q. J. 171 (1993).

F. Andrew Ubel, *Who's on First? -- The Trade Secret Prior User or a Subsequent Patentee*, 76 J. PAT.& TRADEMARK OFF. SOC'Y 387 (1994).

[\[Back to Top\]](#)