Hitotsubashi Journal of Law and Politics 27 (1999) pp.29-34.

PROTECTING THE CONFIDENTIALITY OF SENSITIVE TECHNOLOGICAL INFORMATION IN JAPANESE CIVIL PROCEEDINGS: BEYOND THE DILEMMA OF 'TO SUE OR NOT TO SUE?'

TAKEHIRO HARA

After describing recent developments in Japanese law, the author proposes a new procedural treatment of trade secret cases based on the distinction between two aspects of technological information, namely protecting the external feature or function of the technology without referring to the internal structure or technological details.

1. *Introduction: The Flow of Information in Civil Proceedings*

Whenever we study the workings of the Japanese civil justice system, it soon becomes apparent that the courts remain very dependent upon information derived from various kinds of evidence furnished by the parties. The system in effect has a kind of internal information process built into it. When a case before a court contains an issue of public importance and the court's judgment will have an impact upon society, the court is required to be fully informed before reaching its decision. In order to ensure that the flow of information is free of distortion and there will be no doubt as to the fairness of the decision, it is desirable that witnesses be examined before a public gallery.[1] In view of such considerations, Article 82 of the Constitution provides that all trials, whether criminal or civil, be conducted in public, subject only to very narrow exceptions.[2]

However, such a broad guarantee of public access to the courts sometimes results in the disclosure of confidential and sensitive information to the public. As recent technological developments have made the flow of information more rapid and the content of such information has become more valuable in the changing industrial structure, greater effort is now required to prevent such problems. In this paper, I describe some recent developments in Japanese substantive and procedural law and then explore ways of protecting confidential technological information under current procedural law.

---

[1] The role of open trials in ensuring due process has been discussed in Japan especially after the well-known " Court Note-Taking Case": Repeta v. Japan, Judgment of the Grand Bench of the Supreme Court of Japan, March 8, 1989, 43 Minshu 89 (an English translation appeared in 22 Law in Japan 39 (1989).). See also M. Funeda, The Public Opening of Trials, The Right to Know, and the Attainment of Fair Trials: On the Occasion of the Supreme Court Grand Bench Judgment In the Courtroom Note-Taking Case, 22 Law in Japan 65 (1989).

[2] Article 82 of the Constitution of Japan provides as follows:

1. Trials shall be conducted and judgment declared publicly.

2. Where a court unanimously determines publicity to be dangerous to public order or morals, a trial may be conducted privately, but trials of political offenses, offenses involving the press or cases wherein the rights of people as guaranteed in Chapter III of this Constitution are in question shall always be conducted publicly.

2. *Recent Developments in Substantive Law: The Protection of Trade Secrets Under the Unfair Competition Prevention Act*

Prior to the amendment of the Unfair Competition Prevention Act (UCPA) in 1990, there was almost no provision protecting trade secrets against theft or unauthorized disclosure.[3] There was some debate as to whether such information should be protected or not since, unlike patents, trade secrets are not disclosed through registration at the patent office, and making such undisclosed property privileged would do nothing to help advance technology in the industry as a whole. Despite such macroeconomic considerations, the trend towards international harmonization in intellectual property law has become predominant, especially since the U.S.-Japan structural negotiations in late 1980s, which ultimately led the Japanese Government to draft amendments to the UCPA to ensure greater protection against various types of trade secret infringements.[4]

Both the 1990 and 1992 (latest) versions of the UCPA define trade secrets as methods of production and sales, or other information which is useful for business, which are stored as secrets and are not public knowledge (s. 2(4)), and provide for six types of infringement including theft (s. 2(1)(iv)) and unauthorized disclosure in breach of promise (s.2(1)(vii)).[5]

---

[3] Relief for know-how theft could also be sought through the more general Art. 709 of the Civil Code, which defines tortious liability and provides for relief in the form of damages. Under Art. 723 of the Civil Code and case law, relief by way of injunction is granted only in exceptional cases, such as defamation and privacy infringement. A stricter standard of liability was considered necessary to provide a prompt remedy to victims of trade secret infringements.

Articles 709 and 723 of the Civil Code provide as follows:

Art. 709

A person who violates intentionally or negligently the right of another is bound to make compensation for damage arising therefrom.

Art. 723

If a person has injured the reputation of another, the Court may on the application of the latter make an order requiring the former to take suitable measures for the restoration of the latter's reputation either in lieu of or together with damages.

[4] The enactment of the new UCPA provision was also motivated in part by the intention to prepare for the GATT Uruguay Round multilateral trade negotiations, which include, among other things, the issue of laws for the promotion of competition.

[5] The new UCPA provides for injunctions (section 3) and damages (section 4) as types of sanction for misconduct relating to trade secrets:

Section 3 (Demand for Cessation)

(1) A person whose business interest has been injured or is likely to be injured may demand cessation of such act.

(2) A person whose business interest has been injured or is likely to be injured may also demand any measures which are necessary for cessation or prevention of the act, such as the nullification of the act itself (including the destruction of products which resulted from the act) or the scrapping of the equipment which was used for the act, together with the demand for the cessation.

Section 4 (Damages)

A person who has injured intentionally or negligently the business interest of another by means of unfair competition is bound to make compensation for damage arising therefrom.

3. *Problems in Procedural Law: The Excessive Disclosure of Technological Information*

3.1. The Plaintiff's Dilemma: To Sue or Not to Sue

Under the traditional paradigm in Japanese procedural law, the plaintiff is usually required to state his or her cause of action with sufficient particularity in the statement of claim. That cause of action includes not only who stole the secret and when, but also what kind of secret was stolen and how that act was carried out. This requirement is too severe for plaintiffs who are victims of theft of know-how as they must often disclose more to the public which naturally includes their rivals in the same industry than was originally stolen from them. This dilemma of whether or not to sue often discourages injured persons from seeking judicial relief.

3.2. The Defendant's Dilemma: The Requirement of Counter-Pleading in Cases for Negative Declaratory Relief

While the plaintiff usually bears the burden of proving the particulars of his or her case, a defendant sued for negative declaratory relief a judgment declaring that the defendant's assertion of the plaintiff's misconduct is groundless is forced to justify his or her assertion as a defense. For example, in twin cases between American and Japanese corporations, the former (X) first sued the latter (Y) in Ohio seeking an injunction, damages and declaratory relief based on misconduct relating to the use of know-how which had been offered voluntarily by X to Y. However, soon after the commencement of the action, Y brought a parallel action in Tokyo seeking negative declaratory relief against X's claim. According to the general framework of this type of action, X was forced to specify and prove its cause of action in detail, but failed to do so and had judgment entered against it.[6]

4. *The 1996 Code of Civil Procedure: Provision for Sealing of the Record*

Soon after enacting the UCPA in 1990, the Japanese Government was aware of the necessity of modifying procedural rules relating to access to the courts in order to protect trade secrets. This plan was realized when legislators began to revise the old Code of Civil Procedure, which was enacted in 1890 and had been in force for more than a century. During the drafting stage, it was proposed that a kind of in-camera review, an examination procedure not held before public, be introduced in this type of case. However, strong opposition from groups fearing a diminution of the right to access to the courts prevented this plan from being embodied in the new Code enacted in 1996, and only provision for a new partial sealing of the record was made in its place.

---

[6] Miyakoshi Industry Co. v. Gould Inc., Judgment of the Tokyo District Court, September 24, 1991, 1429 Hanrei Jiho 80.

5. *Problems Yet to be Resolved*

5.1. The Leaking of Information by Opposing Parties and Public Galleries

Under the revised Code, a party fearing the diminution of the value of a sensitive trade secret may file a motion for a partial sealing of the record (Art. 92).[7] However, this provision affords no effective protection against the leaking of information by opposing parties who possess, as of right, official copies of documents submitted in the proceedings. Moreover, the examination of witnesses still takes place before the public and no one is prevented from observing the trial from the gallery. The leaking of sensitive information in this way needs to be addressed.

5.2. The Problem of Complex Technical Issues

As the speed of industrial innovation continues to accelerate, the impairment of the value of information also becomes faster. At the same time, the technological issues which must be clarified by the courts become more complex. These circumstances make it increasingly difficult for civil procedure to keep up with the life cycle of technologies. This is another reason why we need innovation in procedural law itself.

---

[7] In recent years, Japan has experienced chronic delays in civil litigation and seen the emergence of new types of litigation that have highlighted the need for innovation in the civil justice system. In view of such considerations, a new Code of Civil Procedure was enacted in 1996 and entered into force in 1998. Art. 92 of the revised Code provides:

If a prima facie proof has been given for the following grounds, the court may, upon motion of the party, limit by ruling a person who demands perusal or copying of a part of secrets stated or recorded in the record of proceedings, delivery or reproduction of an original document, transcript, or abstract thereof (hereinafter referred to as "perusal etc. of a part of a stated secret") to a party.

(1) A major secret as to the private life of a party is stated or recorded in the record of proceedings, and further, the social life of the party may be seriously hampered by reason that a third person makes perusal, etc. of a part of a stated secret;

(2) A trade secret (meaning "trade secret" provided for in section 2(4) of the Unfair Competition Prevention Act (Law No. 47 of 1993) retained by a party is stated or recorded in the record of proceedings.

2. If the motion mentioned in the preceding paragraph has been made, a third person may not demand perusal, etc. of a part of a stated secret until a decision as to such motion becomes final and conclusive.

3. A third person who intends to demand perusal, etc. of a part of a stated secret may make motion for revocation of the decision under the said paragraph on the ground of non-compliance with requirements provided for in paragraph 1 or of resulting in non-compliance therewith.

4. An immediate appeal (kokoku) may be filed against a decision which has rejected the motion under paragraph 1 and a decision as to the motion under the preceding paragraph.

5. The decision to revoke a ruling under paragraph 1 shall not take effect unless it becomes final and conclusive.

6. *The Encapsulation of Sensitive Information at Each Stage*

6.1. Overview

In order to solve the dilemma accompanying trade secret cases, it would be useful to restructure the existing procedure based on a distinction between the "capsule" (external feature) and the "content" (internal structure) of technological information. The handling of trade secret cases by this method can be divided into the following stages.

6.2. Particularity Needed in Pleading

At the pleading stage, the traditional requirement of particularity should be abandoned. According to the encapsulation approach, a victim of trade secret theft has only to assert and prove the external feature, function or behavior of the technology, and is no longer required to specify the technological detail or internal structure of the product. Some practicing lawyers are already using this technique to avoid the unnecessary impairment of valuable information.

6.3. Pretrial Conferences

Under the old Code, informal pretrial conferences were often held to narrow down the issues for trial, examine documents, and encourage a voluntary settlement of the case through negotiation between the parties and strong commitment by a judge. Under the revised Code, this informal type of conference was refined as a formal one (Arts 168-174) and examination of documents is also permitted (Art. 170(2)). As this procedural device need not be open to the public (it is a broad exception to the rule of public access to the courts), it could serve as a useful means of guarding against the leaking of information.

6.4. De Facto Protective Orders

The revised Code also enhanced the power of courts to require all parties, including third parties, to produce evidence, especially private documents (Art. 220(4)). However, the method of protecting sensitive information was left to de facto discretion in each case. In a recent patent case in the Tokyo District Court brought under the former Code, the party seeking documents was permitted only to inspect documents in a certain room and not to copy or remove them. The Court also ordered that party not to reveal or disclose information to a third party[8]. Such de facto protective orders will also be used under the revised Code.

6.5. The Use of Out-of-Court Hearings

The previous Code already allowed out-of-court hearings before trial by judges in

[8] Interlocutory Judgment of the Tokyo District Court, July 22, 1997, 1627 Hanrei Jiho 141.

exceptional circumstances. In the absence of clear provisions, it was debated whether this quasi-trial (trial-like procedure) should be held before the public. The same problem still remains under the revised Code (Art. 185). According to the above-mentioned distinction of two aspects of technological information, I should say that this kind of procedure can be conducted without public participation only when examination as to the internal technological details is inevitable.

6.6. The Period of Sealing of the Record

When motion for a sealing of the record is granted, that part of the record remains sealed until a motion for revocation of the sealing is made and granted. It would be preferable for records to be unsealed after the passage of a specified period of time. Such treatment, if combined with an advanced trial recording system, would harmonize the two conflicting demands of the guarantee of public access on the one hand and the protection of confidentiality of sensitive information on the other.

7. *Concluding Remarks*

The encapsulation or packing of technological information explored above is a type of procedural innovation in the area of trade secret litigation, but this kind of treatment remains incomplete without the help of substantial law.[9] I hope substantial law will also be amended to ensure the full protection of the external feature or function of technology without referring to the internal structure or technological details. This would enable our judicial system to catch up with the accelerated life cycle of technologies.

HITOTSUBASHI UNIVERSITY

[9] T. Hara, "Judicial Law-Making: A Fresh Approach to Fact-Finding in Civil Litigation (1)-(4)", *Law and Politics*, (Hitotsubashi University Research Series), vols. 28-31 (1996-1998) (in Japanese). The auther examined the possibility of introducing greater dynamism into our civil justice system and emphasized the necessity of reforming the law of evidence.