DOI: 10.18999/nujlp.287.2

論　　説

Cross-Border Trade Secret Disputes
– Analysis by Conflict of Laws

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Introduction

The purpose of this paper is to analyze cross-border trade secret disputes from the viewpoint of Japanese conflict of laws (private international law).

Cross-border disputes with regard to trade secrets have increased in number and become highly significant. A conflict-of-laws analysis is needed in order to deal with the issues raised in these disputes, including the questions of which court(s) should try a case (international adjudicative jurisdiction) and which state law should govern a legal issue (applicable law). In recent disputes however the situation has become more complicated, in particular due to the misappropriation of information over the internet. It is sometimes the case where the place of the acquisition of information, the place of its disclosure, the place of its use, and the place where damage was suffered may be different. This situation makes the conflict-of-laws analysis difficult. For example, under the Japanese choice-of-law rules, claims arising out of a tort are governed by the law of the place where the results of the infringing act are produced. However, where is the place of the results in the above-mentioned case?

Cross-border trade secret disputes have not been analyzed so often from the conflict-of-laws viewpoint.[1)] Whereas a varied discussion exists with regard to

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1） Cf. Rochelle Dreyfuss/Linda Silberman, “Misappropriation on a Global Scale:

unfair competition, those focused on trade secrets have been limited. However, some developments can recently be discerned in Japan in this regard,[2] in particular about the law applicable to trade secrets. Thus, it seems significant and useful to analyze these developments in the sense that they might give useful hints for other jurisdictions.

This paper will, first, give an overview with regard to the law applicable to trade secrets in Europe and in Japan (I), and, then, analyze recent developments in Japan (II). Thereafter, some reflections on the appropriate treatment on this matter will be made (III).

I. Discussions in Europe and in Japan

1. Situation in Europe

The misappropriation of trade secrets is considered a type of unfair competition. Opinion in Europe was divided over whether they should be characterized as torts and whether a special choice-of-law rule other than the general choice-of-law rule relating to torts is necessary.[3] The Rome II Regulation[4] which applied from 11 January 2009 brought a harmonized solution by introducing a special provision, Article 6, relating to unfair competition and acts restricting free competition which provides as follows:

Extraterritoriality and Applicable Law in Transborder Trade Secrecy Cases", *Cybaris Intellectual Property Law Review*, Vol. 8 (2017), p. 265, p. 273 (which refers to lack of the analysis on the applicable law in a transnational trade secrecy case in the U.S.).

2) As an analysis focusing on the cross-border aspects of the protection of trade secrets, see, Masabumi Suzuki, "Eigyō Himitsu no Hogo no Kokusaiteki Sokumen nikansuru Oboegaki"[Reflections on International Aspects of the Protection of Trade Secrets], *Tokkyo Kenkyū* [Patent Studies], No. 69 (2020), p. 59.

3) Dai Yokomizo, "Teishoku-hō niokeru Fusei Kyōsō Kōi no Toriatsukai [International Unfair Competition and Conflict of Laws], *Chiteki Zaisan Hōseisakugaku Kenkyū* [Intellectual Property Law and Policy Journal], Vol. 12 (2006), p. 185, pp. 202-223.

4) Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations ('Rome II'), *OJ* L 199, 31. 7. 2007, p. 40.

"1. The law applicable to a non-contractual obligation arising out of an act of unfair competition shall be the law of the country where competitive relations or the collective interests of consumers are, or are likely to be, affected.

2. Where an act of unfair competition affects exclusively the interests of a specific competitor, Article 4 shall apply.

3….

4…."

Thus, unfair competition should be divided into two categories: those which affect exclusively the interests of a specific competitor and others. On the one hand, a non-contractual obligation arising out of an act of unfair competition is, in principle, governed by the law of the affected market.[5) 6)] This rule was introduced based on the idea that, "in matters of unfair competition, the conflict-of-law rule should protect competitors, consumers and the general public and ensure that the market economy functions properly".[7)] On the other hand, an act of unfair competition which exclusively affects the interests of a specific competitor is governed by the applicable law under the general rule in Article 4, namely, the law of the country in which the damage occurs.[8)]

5） Although the difference of the terms with Article 6 (3), "the country where competitive relations or the collective interests of consumers are, or are likely to be, affected" can be understood as the country whose market is, or is likely to be, affected. See, Michael Hellner, "Unfair Competition and Acts Restricting Free Competition: A Commentary on Article 6 of the Rome II Regulation", *Yearbook of Private International Law*, Vol. 9 (2009), p. 49, pp. 55-56.

6） The law applicable under this rule may not be derogated from by parties' agreement pursuant to Article 14. Article 6 (4).

7） Recital (21).

8） Article 4 provides as follows:

"1. Unless otherwise provided for in this Regulation, the law applicable to a non-contractual obligation arising out of a tort/delict shall be the law of the country in which the damage occurs irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event occur.

2. However, where the person claimed to be liable and the person sustaining damage both have their habitual residence in the same country at the time when the damage occurs, the law of that country shall apply.

3. Where it is clear from all the circumstances of the case that the tort/delict is manifestly more closely connected with a country other than that indicated in paragraphs 1 or 2,

Which category should an act pertaining to trade secrets fall within? According to the Explanatory Memorandum in support of the European Commission's 2003 Proposal for the Rome II Regulation,[9] disclosure of business secrets is referred to as an example of the situations where an act of unfair competition targets a specific competitor.[10] This view is generally accepted by academic opinion.[11] However, some authors claim that trade secret disputes cover a wide variety of facts and scenarios, and it is not possible to put all of them in one of the two categories.[12] According to them, when the misappropriation of a trade secret has brought an advantage in relation to all competitors in the market, then Article 6 (1) applies.[13] Thus, academic opinions are divided about the classification of claims in matters of trade secrets.

As for the determination of the applicable law in cross-border trade secret cases, the difficulty of identifying "the country in which the damage occurs" is pointed out due to the intangible nature of trade secrets.[14] One author claims that, in cases where there are buyers for the trade secret in question, outlets for its publication, or markets for products derived from its misappropriation in different countries, each place should be considered as the place where damage has occurred, and, as a result, many laws should apply.[15] Other authors give the following examples. German law will apply as the law of the place of the damages under Article 4 if a German company's know-how relating to its patented product

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the law of that other country shall apply. A manifestly closer connection with another country might be based in particular on a pre-existing relationship between the parties, such as a contract, that is closely connected with the tort/delict in question."

9) Proposal for a Regulation of the European Parliament and the Council on the law applicable to non-contractual obligations (Rome II), COM (2003) 427 final.

10) *Ibid*., p. 16.

11) Hellner, *supra* note (5), p. 56; Christopher Wadlow, "Trade Secrets and the Rome II Regulation on the Law Applicable to Non-contractual Obligations", *European Intellectual Property Review*, Vol. 8 (2008), p. 309, p. 310 ("at least in the majority of cases"). Cf. Innovia Films Limited v. Frito-Lay North Amrica, Inc. [2012] EWHC 790 (pat).

12) James J. Fawcett/Paul Torremans, *Intellectual Property and Private International Law* (2nd ed., Oxford, 2011), p. 901; Andrew Dickinson, *The Rome II Regulation: The Law Applicable to Non-Contractual Obligations* (Oxford, 2008), pp. 405-407; Richard Plender/Michael Wilderspin, *The European Private International Law of Obligations* (3rd ed., Sweet & Maxwell, 2009), pp. 608-612.

13) Fawcett/Torremans, *ibid*.

14) Wadlow, *supra* note (11), p. 313.

15) *Ibid*.

is stolen by its only rival on the market. In contrast, Belgian law will apply under Article 6 (1) if Belgium is the market where the confidential information illegally obtained is used by a competitor to gain an advantage over all other players in the market.[16] At any rate, it seems difficult to identify the applicable law in trade secret cases in a foreseeable way and the applicable law has to be determined on a case-by-case basis.

2. Situation in Japan

In Japan, the majority academic opinion is that unfair competition claims should be characterized as torts.[17] As for the determination of the applicable law, some authors claim the application of the law of the place of the affected market in matters of unfair competition in general, considering that unfair competition law aims to regulate the market like competition law.[18] Others claim there is a distinction between "market-related unfair competition" and "business-related unfair competition" due to the variety of unfair competition conduct, and propose applying the place of the affected market for the former and the place of the business office of the victim competitor for the latter.[19] The latter connecting factor is proposed from the viewpoint of the protection of the victim competitor's interest.[20] However, it should be noted that Japanese choice-of-law rules were amended in 2006 and the connecting factor of the law applicable to torts changed

16） Fawcett/Torremans, *supra* note (12), p. 901.

17） Teruo Doi, "Kōgyō Shoyūken [Industrial Property Right]" in The Association of Public International Law (ed.), *Kokusai Shihō Kōza* [Courses on Private International Law], Vol. 3 (Yūhikaku, 1964), p.829; Yoshiharu Aizawa, "Fusei Kyōgyō [Unfair Competition]", in Ryōichi Yamada/Yoshio Hayata (eds.), *Enshū Kokusai Shihō Shinpan*[Seminar on Private International Law, New Edition] (Yūhikaku, 1992), p. 137. However, some authors claim a specific choice-of-law rule relating to unfair competition in order to avoid the so-called double actionability rule. See, Shōichi Kidana/Hiroshi Matsuoka (eds), *Kihon-hō Kommentaru Kokusai Shihō* [Commentary on Basic Laws: Private International Law] (Yūhikaku, 1994), p. 74 [Shunichirō Nakano]. For other references, see, Yokomizo, *supra* note (3), p. 198-199.

18） Doi, *ibid*., p. 831: *id., Kokusai Shihō* [Private International Law] (Seibundō, 1970), p. 180.

19） Aizawa, *supra* note (17), p. 137; Naoe Fujisawa, Case Note, *Jurisuto* [Jurist], No. 1287 (2005), p. 143, p. 146.

20） Aizawa, *ibid*.

from "the place where the fact giving rise to a tort"[21] to "the place in which the result of the infringing act was produced".[22] It is not clear whether these authors claim this connecting factor under the current provision.

The infringement of trade secrets is also usually characterized as a tort in Japan.[23] However, the determination of the law applicable to claims with regard to trade secrets has not been discussed concretely until recently.

In case law, only one case was rendered before the amendment of Japanese choice-of-law rules. In it a Japanese company brought an action against an American company seeking a negative declaration of its obligation for damages based on the infringement of the defendant's trade secret. The Tokyo District Court characterized the claim as a tort and applied Japanese law, considering a variety of elements such as the place of the conclusion of the contract in question and the negotiation for it, and the place of the technical conference.[24]

Since the amendment in 2006, there have been three cases with regard to the law applicable to trade secrets.[25] Whereas the court did not refer to the applicable law and directly applied Japanese unfair competition law (Unfair Competition Prevention Act) [26] in a case where an Austrian company sought for injunction of the disclosure of its trade secret against a Japanese company,[27] it determined the applicable law in the other two cases. In one case, a Japanese company sought for the injunction of the use or the disclosure of the information concerning its trade

21） Article 11 (1) of the *Hōrei* (Law No. 10 of 1898).
22） Article 17 (1) of the *Hō no Tekiyō ni kansuru Tsūsoku-Hō* [Act on General Rules on Application of Laws, Law No. 78 of 2006] (Hereafter referred to as "*Tsūsoku-Hō*").
23） Akira Takakuwa, Case Note, *Jurisuto*, No. 1006 (1992), p. 148, p. 150; Akihiko Kunitomo, Case Note, *Jurisuto*, No. 1002 (1992), p. 260, p. 262; Yoshiaki Nomura, Case Note, *Shihō Hanrei Rimākusu* [Remarks on Private Law Cases], No. 7 (1993), p. 156, p. 159. *Contra*, Zenpachi Okamoto, Case Note, *Tokkyo Kanri* [Patent Control], Vol. 44, No. 2 (1994), p. 159, p. 161 (claiming the application of the affected market as a special choice-of-law rule).
24） Tokyo District Court, Judgment, September 23, 1991, *Hanrei Jihō* [Judicial Reports], No. 1420, p. 80, *Hanrei Taimuzu* [Law Times Reports], No. 769, p. 280.
25） In addition to the following cases, there are two cases which referred to the place of torts with regard to the international adjudicative jurisdiction in the proceedings of the enforcement of foreign judgments. Tokyo High Court, Judgment, May 11, 2011, *Minshū* [Supreme Court of Civil Reports], Vol. 68, No. 4, p. 356; Yokohama District Court, Judgment, August 6, 2014, *Hanrei Jihō*, No. 2364, p. 62.
26） Law No. 47 of May 19, 1993.
27） Tokyo District Court, Judgment, December 26, 2007, *Hanrei Taimuzu*, No. 1282, p. 326.

secret against a Japanese company, alleging that the defendant acquired the said information abroad from a Taiwanese company or Chinese companies. The IP High Court characterized the issue as a tort and declared Japanese law applicable, holding that, from the fact that the defendant is a Japanese company whose principal office is located in Japan, and the use or the disclosure of the said information was conducted in Japan, the place in which the result of the infringing act was produced should be considered Japan.[28] In another case, a Swiss company took an action against a Japanese company for injunction and damages on the ground that the defendant used the technical information disclosed from the plaintiff without authorization and disclosed it to the third party. The court characterized the claim again as torts, and declared Japanese law applicable as the law of the place in which the result of the infringing act was produced since the illegal use and disclosure of the plaintiff's trade secret was conducted in Japan.[29] Although the number of the cases is limited, it can be said that the courts determined the law applicable to claims with regard to trade secrets by characterizing the issue as a tort and focusing on the grounds of the plaintiff's claim such as the use or the disclosure.

II. Recent Developments

The misappropriation of trade secrets has become a great concern for Japanese companies. Against this background, the discussions about the law applicable to trade secret has become lively.[30] Two new tendencies can be pointed out: the claim for a new connecting factor (1), and the claim that substantive rules relating to trade secret constitute overriding mandatory rules (2).

28） IP High Court, Judgment, January 15, 2018, *Hanrei Taimuzu*, No. 1452, p. 80.

29） IP High Court, Judgment, September 20, 2019, *unpublished* (Hei 30 (ne) No. 10049) *available at* Courts in Japan < http://www.courts.go.jp/ >.

30） Recently, the Japan Patent Office published a report with regard to cross-border unfair competition disputes, including trade secret disputes. "Fusei-Kyōsō-Bōshi-Hō niokeru Shōgai-teki na Shingai-Jian Tō nituiteno Seido nikansuru Chōsa Kenkyū Hōkokusho" [Report on Investigation and Research with Regard to Institutions on Cross-Border Disputes etc. in Unfair Competition Prevention Act] (March, 2020), *available at* <https://www.jpo.go.jp/resources/report/sonota/document/zaisanken-seidomondai/2019_03_01.pdf> (last visited May 27, 2020).

1. Proposal for a New Connecting Factor

First, some authors argue in favor of using a connecting factor that is more in favor of the holder of the trade secret. For example, one author claims that the place of the result of the infringing act should be considered as the place where the principal office of the victim company is located since the competition capacity of that company would be harmed in that place.[31] Other authors claim that the place of the result of the infringing act should be the place where the trade secret was controlled since the result of the loss of confidentiality occurs at the moment when it is misappropriated.[32]

Thus, one single applicable law is claimed for the misappropriation of a trade secret irrespective of the ground of the plaintiff's claim or of the place(s) of the use or the disclosure.

2. Trade Secret Rules as Overriding Mandatory Rules

Second, it is sometimes claimed that substantive rules relating to trade secrets should be considered as overriding mandatory rules which shall apply irrespective of the applicable law designated by the ordinary choice-of-law rule. One author claims to consider Article 2 (1), from item 4 to item 9 of the Unfair Competition Prevention Act as overriding mandatory rules.[33] According to this author, penal sanctions against the acquisition, the use, and the disclosure of a trade secret were introduced in 2003, and have been reinforced several times since 2005. These movements are based on the idea that, whereas the importance of the technical information has dramatically been increased due to the rapid technical evolution

31）Takuya Iizuka, "Eigyō Himitsu no Kokusai teki Shingai Kōi ni kansuru Tekiyō Junkyo-hō" [Applicable Law with regard to International Infringement Activities of Trade Secrets], in Ryū Takabayashi/Ryōichi Mimura/Toshiko Takenaka, *Chiteki Zaisan-hō no Jisumu teki Hatten* [Development of IP law in Practice] (Seibundō, 2012), p. 387, p. 405.

32）Shōen Ono/Kazunori Yamagami/Nobuo Matsumura (eds), *Fusei-kyosō no Hōritsu Sōdan I* [Legal Consultations on Unfair Competition] (Seirin Shoin, 2016), p. 45 [Masato Dōgauchi]; Takahiro Yamauchi/Soh Inoue, "Eigyō Himitsu Shingai ni kansuru Uttae no Junkyo-hō ni tsuiteno Ichi-kōsatsu [A Reflection on the Law Applicable to an Action with Regard to the Infringement of Trade Secrets], *NBL*, No. 1148 (2019), p. 58, p. 64.

33）Takuya Shima, Case Note, *Shihō Hanrei Rimākusu*, No. 59 (2019), p. 142, p. 145.

and the informatization of the economy and society, the risk that the acquisition, the use, and the disclosure of a trade secret affect the competition in the market has become acknowledged as a serious issue. Considering this process, rules relating to civil responsibility with regard to trade secrets should be considered as overriding mandatory rules pursuing for the public interest of preventing the misappropriation of trade secrets held by domestic companies.[34)]

Thus, against the background of the reinforcement of the penal sanctions against the misappropriation of a trade secret, it is claimed to consider rules relating to trade secrets of the Unfair Competition Prevention Act as overriding mandatory rules.

III. Reflections

How should the applicable law in matters of trade secret de determined? Here, two issues will be discussed successively: the appropriate connecting factor (1) and the possibility of considering the rules relating to trade secrets as overriding mandatory rules (2).

1. Appropriate Connecting Factor for the Law applicable to Trade Secrets

First, as for the connecting factor of the law applicable to trade secrets, several alternatives have been proposed: the place of use, the place of disclosure, the place of the affected market, the place of the principal office of the victim

34）*Ibid*. See also, Dōgauchi, *supra* note (32), p. 47 (mentioning the possibility of considering Article 2, item 7 of the Unfair Competition Act as an overriding mandatory rule); Yasuto Komada, Case Note, *Jurisuto* [Jurist], No. 1544 (2020), p. 294, p. 295 (finding it significant to discuss the possibility of considering relevant provisions as overriding mandatory rules at least in cases where a civil claim falls within the scope of the protection given by the penal law).

company,[35] and the place where the trade secret is controlled.[36] Is it possible that one of them is the most appropriate connecting factor?

Here, the true question seems to be this: in cases where the acquisition of a trade secret and its use or disclosure are conducted in different jurisdictions, should we choose one single law irrespective of the ground of the plaintiff's claim? The ground of the claim may be different in each case. The plaintiff may seek an injunction against disclosure focusing on the defendant's act of disclosure. It may also seek damages on the ground that the defendant acquired its trade secret. Is it necessary or desirable to find the same applicable law for these different cases? It seems preferable that the applicable law is determined focusing on the ground of the plaintiff's claim in each case instead of trying to find one single applicable law for any infringement of trade secrets.

Naturally, this solution might lead to the application of different state laws when the plaintiff's claim is grounded on the defendant's acts in different jurisdictions.[37] However, other choice-of-law rules relating to torts such as those of escape clauses[38] or choice-of-law agreements by the parties may help to simplify the situation.[39]

35） This connecting factor is sometimes preferred not only in Japan but abroad. See, Wadlow, *supra* note (11), p. 313. The idea that the place of the primary injury occurs at the place of the victim company can also be seen in some U. S. cases. See, 261BP Chemicals v. Formosa Chemical & Fibre, 229 F. 3d 254 (3rd Cir. 2000), p. 261.

36） In addition to them, some authors in the U. S. propose that "the applicable law should be the law of the place where the secret was developed and thus where the trade secrecy holder suffered injury, provided that the defendant could foresee, at the time it acquired or used the information, that this law would be applied". Dreufuss/Silberman, *supra* note (1), p. 321.

37） See, Wadlow, *supra* note (11), p. 313.

38） Article 20 of the *Tsūsoku-hō*: "Notwithstanding the provision of the preceding three articles, the formation and effects of claims arising from a tort shall be governed by the law of another place, when that place presents manifestly closer connection with the tort than the one indicated by the preceding three articles, in consideration of the fact that the parties had at the time of the occurrence of the tort common habitual residence, the fact that the tort constitutes the breach of contractual obligations between the parties, or other circumstances of the case."

39） Article 21 of the *Tsūsoku-hō*: "The parties of a tort may, after it occurred, change the law applicable to the formation and effects of claims arising from it. However, if the rights of a third party are affected, the change may not be asserted against him."

2. Rules relating to Trade Secrets as Overriding Mandatory Rules

Second, should we consider the rules relating to trade secrets as overriding mandatory rules? Although it has been observed that the U. S. courts have applied their own trade secret rules in an extraterritorial way,[40] no discussion can be found in Europe to support this view.[41]

However, under the current situation where Japan has been extending the territorial scope of the penal rules relating to the infringement of trade secrets, it seems reasonable, at least for Japan, to consider relevant civil rules as overriding mandatory rules. Is it understandable that a foreign law would apply in civil cases where the conduct in question should be sanctioned according to Japan's penal rules? Is it not more logical that Japan should seek its own economic policy also in civil cases in the above-mentioned case considering the relevant civil rules as overriding mandatory rules? It seems appropriate to consider the rules relating to the infringement of trade secrets in the Unfair Competition Prevention Act as overriding mandatory rules and to apply them irrespective of the applicable law designated by the ordinary choice-of-law rules relating to torts, particularly in cases where the Japanese penal rules would apply.

Concluding Remarks

This paper analyzed cross-border trade secret disputes from the viewpoint of Japanese conflict of laws, focusing in particular on the law applicable to trade secret disputes. The conclusion is as follows: claims relating to trade secrets should be characterized as torts and the applicable law (which is the law of the place in which the result of the infringing act was produced under the Japanese choice-of-law rule) should be determined focusing on the ground of the plaintiff's

40） Dreufuss/Silberman, *supra* note (1).

41） In Japan, one author pointed out the situation where the differences of the protection for trade secrets have brought the conflict of national interests although he did not consider the relevant rules as overriding mandatory rules. Shigeru Fuwa, Case Note, *Ehime Hōgakkai Zasshi* [Ehime University Law Association Review], Vol. 19, No. 2 (1992), p. 85, p. 93.

claim. In addition, the rules relating to the misappropriation of trade secrets in the Unfair Competition Prevention Act should be considered as overriding mandatory rules and apply, in particular, in cases where the Japanese penal rules would apply. Thus, in practice, it should be examined, first, whether Japanese overriding mandatory rules will apply to the case, and, second, if the answer is negative, the court should determine the applicable law in the above-mentioned way.

In particular, the second conclusion will bring the following questions: is there no room to consider foreign rules on trade secrets as overriding mandatory rules? If affirmative, is there no room for the Japanese courts to apply them or take them into consideration?[42] How should the foreign rules and the Japanese ones be coordinated when both rules show their intention for the application to the same act?[43] These questions should be further examined in comparison with the other legal fields, in particular with the competition law.

42）As for the discussions with regard to the overriding mandatory rules in the third country, see, Yoshiaki Sakurada/Masato Dōgauchi, *Chūshaku Kokusai Shihō* [Commentary on Private International Law], Vol. 1 (2011), pp. 41-45 [Dai Yokomizo].

43）Cf. Johanna Guillaumé, *L'affaiblissement de L'État-Nation et le droit international privé* (LGDJ, 2011), pp. 426-448.