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PROTECTING CONFIDENTIAL INFORMATION AND INTELLECTUAL PROPERTY RIGHTS IN JAPAN— HOW TO AVOID A ROOKIE MISTAKE

Employers in Japan could be in store for a shock when they learn that their confidential information and intellectual property may not be fully protected. Many companies in Japan routinely rely on side agreements with employees concerning the protection of confidential information and the assignment of intellectual property rights with respect to information learned and discoveries made during the course of the employment relationship. Such provisions should dovetail with the protections afforded under a company's work rules. While many companies in Japan do maintain broad confidentiality and intellectual property protective provisions in their work rules, for those companies that do not, such failure could expose them to deep and significant losses.

By means of background, a company in Japan that continuously employs ten or more persons is required to prepare work rules that specify the conditions of employment. Japanese labor laws provide a non-exhaustive list of matters that should be dealt with in a company's work rules, such as working hours, rates of pay, vacation policies, dismissal procedures, and other matters that apply generally to all employees at the workplace. However, Japanese labor laws do not set a ceiling for the type of information that should be included in a company's work rules, as the work rules should address all material employment-related conditions. So long as the terms and conditions stipulated in a company's work rules are "reasonable" and the employees have been informed of the contents of the work rules, the terms and conditions stipulated in such work rules should form the terms and conditions of employment for all employees who are subject to the work rules.

The existence of work rules helps to explain why Japanese employment agreements with rank-and-file workers are often abbreviated documents, as most of the core provisions of these arrangements incorporate by reference the company's work rules.

What is the legal effect under Japanese law of rigorous confidentiality and intellectual property assignment matters included in a privately negotiated contract with an employee when the company's work rules are silent on this topic, conflict with the privately negotiated terms, or contain more relaxed provisions? The answer is not clear and we are unaware of any Japanese court precedents on point. However, Japanese scholars argue that under these circumstances the work rules should supersede the corresponding provisions negotiated in the employment contract in light of the provisions of Article 12 of the Labor Contract Act, which stipulates that a company's work rules normally will take precedence over the terms and conditions in an individual's employment contract if the applicable work rules are more favorable to the employee. As a result, a company in such a position could be mistakenly relying on contractual protections that may not be enforceable due to the application of Article 12 of the Labor Contract Act.

All is not lost for a company that does not have adequate provisions to protect its confidential information and intellectual property in its work rules. A company faced with such a scenario could make the following arguments:

- since most intellectual property laws of Japan are not included within Japanese labor laws, the protection of intellectual property should be considered an area outside the traditional employment environment and not subject to the provisions of Article 12 of the Labor Contract Act;
- it is a well-established practice in the Japanese market for companies and employees to enter into confidentiality and intellectual property assignment agreements, and Japanese courts should preserve the rational expectations of the contracting parties (absent unusual circumstances);
- since a privately negotiated contract must be counter-signed by the employee, this should help demonstrate that the provisions are acceptable to the employee and closely akin to amending the company's work rules to incorporate such intellectual property ownership concepts; and
- the absence of provisions in the company's work rules concerning confidentiality and intellectual property assignment should not be read to create a conflict with a stand alone agreement, as the lack of these provisions in the company's work rules does not necessarily mean that the company adopted a policy concerning these matters (i.e., one of non-protection).

Legal counsel should be retained to advise on the applicability of the foregoing arguments to the particular case at hand, and whether other arguments could support or detract the enforceability of a confidentiality and intellectual property assignment agreement when the work rules of the subject company are silent on these points or provide weaker or different protection than the proposed contract. We also note since work rules apply only to a company's employees, the issue of balancing the confidential information and intellectual property rights negotiated in private contracts versus the corresponding provisions in a company's work rules should not apply with respect to a company's directors and other non-employees.

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We believe that it would be a prudent policy for a company

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with valuable confidential information to maintain the current market practice of having deep and broad intellectual property protection provisions in its work rules. If a company's work rules currently do not contain such protections, then pending the adoption of updated work rules, the company may wish to enter into contracts with relevant employees covering these matters as a violation of the agreement could provide the company with a breach of contract claim (depending on the analysis of whether Article 12 of the Labor Contract Act would trump the enforcement of such claim).

We also believe that a company with valuable confidential information does not necessarily need to immediately race to update its work rules to match the intellectual property protections covered in private agreements with employees. In light of the time and expense often associated with amending a company's work rules and the tenuous position whether the work rules must include comparable intellectual property provisions (or such incremental protection is lost), a company may wish to wait and include robust intellectual property protection safeguards when effecting the next round of amendments to its work rules (unless, of course, the company is on the verge of developing a major new innovation).

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