

Resolution

Question Q247

Trade secrets: overlap with restraint of trade, aspects of enforcement

Background:

- 1) This Resolution concerns four aspects of trade secret law:
 - a. whether and to what extent trade secret enforcement should be curtailed so as to prevent such enforcement becoming an unlawful restraint of trade;
 - b. ensuring that the secrecy of trade secrets is not prejudiced during enforcement procedures and by judicial processes generally;
 - c. the nature and availability of compensation for trade secret violations; and
 - d. effective methods of evidence gathering in relation to trade secret violations.
- 2) AIPPI has studied trade secret protection in the context of Article 39 of TRIPs, and Article 10bis of the Paris Convention, but not specifically the four aspects addressed by this Resolution.
- 3) **Restraints of trade:** National laws vary greatly in relation to the interface between restraints of trade and trade secret protection. However, many jurisdictions have adopted an approach of defining protectable trade secrets sufficiently narrowly so as to avoid possible overlaps with issues such as restraints of trade or competition law.
- 4) **Confidentiality:** There is already very substantial consensus that, in appropriate cases, proceedings of a court or applicable administrative body (collectively, “**Courts**”) (the docket/court file, as well as hearings and trials) should be confidential and private. The use of any given mechanism to protect confidentiality is highly fact-dependent, e.g. on the significance of the confidential information and on whether parties have in-house legal advisors not involved directly in the business who can be granted access to information. It should be possible for the decision-maker to make a determination on a case-by-case basis as to the exact methods to be used, bearing in mind all relevant factors, including a party’s right to know the case it must meet, public policy requirements that mandate open justice and public trials, and the defendant’s and plaintiff’s rights to maintain secrecy of their confidential information.
- 5) **Compensation:** Since publication of a trade secret can destroy its value, the primary remedy in trade secret cases remains an injunction (ideally also prior to any misuse) to prevent the unauthorised acquisition, disclosure or use of the trade secret. However, compensation can also be an appropriate additional remedy. It is well established in many jurisdictions that compensation can be obtained in respect of trade secret

violations, and the usual bases for calculating compensation are for the loss of the plaintiff, the unlawful profit of the defendant, and/or reasonable royalties as an estimate of the loss of the plaintiff. If a sufficient causal nexus exists between the trade secret violation and damage to the reputation of the plaintiff, then compensation for loss of reputation should be recoverable as well. As an alternative, in some jurisdictions this type of damage is classified as moral damage or non-pecuniary loss.

- 6) **Evidence gathering:** Methods of gathering evidence prior to commencing legal proceedings, such as preparatory enquiries by way of the search orders available in some countries, are useful methods where otherwise it would be difficult or impossible to obtain relevant factual evidence especially where the facts relating to the violation are within the knowledge of the defendant, and the plaintiff cannot otherwise obtain access to those facts. It could be useful for such methods to be available more broadly, authorised by Courts on a case-by-case basis.
- 7) 45 Reports were received from AIPPI's National and Regional Groups providing detailed information and analysis regarding national and regional laws relating to this Resolution. These Reports were reviewed by the Reporter General of AIPPI and distilled into a Summary Report. The individual Reports and the Summary Report are available on the AIPPI website www.aippi.org. At the AIPPI World Congress in Rio de Janeiro, the subject matter of this Resolution was further discussed within a Working Committee and again in a full Plenary Session, which led to the adoption of the present Resolution by the Executive Committee of AIPPI.

AIPPI resolves that:

Restraints of trade

- 1) As a general rule, the actual or threatened unauthorised acquisition, disclosure or use of trade secrets should be enjoined. However, a person should not be restrained from fairly using their general knowledge, skills and experience that is useful for a specific job in all enterprises in a sector and that is generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.
- 2) In relation to any particular item of trade secret information, the standard of confidence to be applied should be the same for any person, irrespective of whether seniority or any other applicable fiduciary or other duty imposes a different or additional obligation.

Confidentiality during Court proceedings

- 3) In all proceedings involving alleged trade secrets, the Court upon request of a party to the proceeding or on its own motion, should preserve the secrecy of an alleged trade secret by reasonable means suitable to the nature and circumstances of the case, which may include:
 - a. granting confidentiality (protective) orders (or the equivalent) in connection with discovery proceedings or other similar proceedings;
 - b. holding in-camera hearings;
 - c. sealing any records of the proceeding that contain the alleged trade secret;
 - d. permitting any publicly available pleadings, judgment or other documents to omit (or redact) the alleged trade secret; and

- e. ordering any person involved in the proceeding not to disclose the alleged trade secret without prior approval of the Court.

Compensation

- 4) Independently of injunctive relief as a primary remedy, a person should be entitled to recover compensation for the unauthorised acquisition, disclosure or use of trade secrets. Compensation should include:
 - a. the actual loss caused by the unauthorised acquisition, disclosure or use of trade secrets, including lost profits and reputational loss; and/or
 - b. the unjust enrichment caused by unauthorised acquisition, disclosure or use of trade secrets that is not taken into account in calculating actual loss.
- 5) As a minimum level of compensation for a proven unauthorised acquisition, disclosure or use of a trade secret where the amount of actual loss and/or unjust enrichment is not proved, a person should be entitled to a reasonable royalty measured by the Court.
- 6) The measure of the amount of compensation should be based on the value of the trade secret prior to its unauthorised acquisition, disclosure or use.

Evidence gathering

- 7) A Court in a proceeding, or in an intended proceeding, for alleged unauthorised acquisition, disclosure or use of a trade secret should have the authority, upon *ex parte* application, to issue appropriate orders to preserve potential evidence for use in the proceeding and to prevent the disclosure and use of the alleged trade secret that is the subject of the proceeding. Unless authorised by the Court, evidence seized may only be used in the proceeding for which it is preserved.
- 8) Any *ex parte* application under paragraph 7 above should:
 - a. include a full and frank statement from the applicant that identifies all relevant and potentially relevant facts material to the application of which the applicant is actually aware; and
 - b. be followed as soon as practicable by an *inter partes* proceeding, at which the defendant may challenge the decision to grant the *ex parte* order. The decision of the Court concerning any such challenge should be given in writing.
- 9) The applicant in any *ex parte* application under paragraph 7 above should be liable to the defendant for any actual loss caused to the defendant by the unjustified granting of the *ex parte* application.

Links:

- Working Guidelines
<http://aippi.org/wp-content/uploads/committees/247/WG247English.pdf>
- Summary Report
<http://aippi.org/wp-content/uploads/2015/10/SR247English.pdf>
- Group Reports page
<http://aippi.org/event/2015-aippi-world-congress/#group-reports>