



## Summary Report

### Question Q215

#### Protection of Trade Secrets through IPR and Unfair Competition Law

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#### **Background**

The Executive Committee of AIPPI has included the protection of trade secrets in the agenda of the 2010 AIPPI Congress. As we will discuss in this report, the trade secret protection is important for corporations and institutions that have developed and own valuable confidential information.

AIPPI studied know-how under Q53A. In 1974, the Executive Committee, in Melbourne, adopted a resolution that contains a definition of know-how and basic principles for the legal protection of know-how with a proposal for additional provisions in the Paris Convention. Also, under Q115 entitled "Effective protection against unfair competition under Article 10<sup>bis</sup> Paris Convention of 1883," the AIPPI broadly studied unfair competition including trade secrets at the Copenhagen Executive Committee Meeting in 1994. The Q115 adopted in Copenhagen lists certain acts as examples of violation of trade secrets (Q115 Copenhagen). AIPPI continued its work on trade secrets under Q115 during the Montreal Congress in 1995 (Q115 Montreal), but not much was added to the Copenhagen resolution. Q115 Copenhagen included the analysis of the liability of a third party that received a trade secret in good faith. Under Q138A, AIPPI studied confidentiality, disclosure and publication of data in information networks.

It is now more than 15 years since the conclusion of the TRIPS Agreement, and most, if not all, countries or regions that are part of WTO-TRIPS provide protection of trade secrets in compliance with Article 39 of the Agreement. Therefore, the Committee's view was that the question of protection of trade secrets is now pertinent and relevant in most national and regional Groups, and it requires greater harmonization across national borders in the increasingly international business environment.

The questions posed to the AIPPI National or Regional Groups have been met with a high level of interest. In total, the Reporter General received forty reports from the following countries: Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada,

Chile, China, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Germany, Hungary, Indonesia, Israel, Italy, Japan, Republic of Korea, Latvia, Mexico, the Netherlands, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, and the United States.

Each Group report generally provided clear answers to the working guideline questions and a majority also gave comprehensive and detailed information about specific rules and case law. In this respect, the reports from Australia, France, China, the US, the UK, Sweden, Japan and the Netherlands were particularly helpful.

Due to the large number of Group reports, and differences in the presentation of the national legal solutions, this summary report cannot be considered as reflecting the detailed rules explained by each individual Group or the case law and examples used by the Groups to illustrate them in practice. Therefore, if particular information is required or specific legal issues arise, it is advisable to refer to specific Group reports. Instead, this Summary Report highlights some of the most prominent aspects emanating from the Group Reports in order to facilitate the preparation of the Resolution.

### **Substantive law**

The Working Guidelines asked the Groups to summarize legal developments concerning trade secrets and the impact of the TRIPS Agreement.

Generally, the protection of trade secrets seems to have its base in Civil Code, Commercial Code, or Penal Code in civil law countries, and developed into more specific statutory provisions in unfair competition laws, contract laws, employment laws or other types of statutory provisions. In Germany, protection of professional secrets by employees appeared in the Anti-unfair Competition Act of 1896, and developed into the German Act on Unfair Competition (1909), which seems to have had certain influence among European Countries<sup>1</sup>. In the Netherlands, an epoch-making civil law judgment of the Dutch Supreme Court (“Hoge Raad”) in the *Lindenbaum v Cohen* case was issued in 1919 concerning trade secret protection.

In Canada, Australia and the UK, trade secret protection is based on common law and equity and is not codified.

In the UK, the protection of “trade secrets” is dealt with under the broader category of “confidential information.” The recognition of a law of confidence as part of the law of England and Wales can be traced back to the case of *Prince Albert v Strange* (1849) 41 ER 1171; however, it is largely accepted that the judgment in *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41 developed and established the modern and definitive principles in this area.

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<sup>1</sup> The Swedish Group mentioned the inspiration taken from the German Act in the legal development in Sweden (page 1 of its report).

In the US, trade secrets are protected under individual state statutes and common law, and in 1979 the Uniform Trade Secrets Act was promulgated. In 1984, the United States Supreme Court held that a trade secret was a property right in *Ruckelshaus v Monsanto*, 467 U.S. 986 (1984). In 1994, the American Law Institute adopted and promulgated the Restatement of the Law (Third), Unfair Competition, Sections 39-49 [Trade Secrets]. Section 39 sets forth the following modern definition of trade secrets and includes "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." This definition of a trade secret is consistent with the definition of a trade secret in Section 1(4) of the Uniform Trade Secrets Act. In 1996, the United States enacted the Economic Espionage Act of 1996, 18 U.S.C. Section 1831 et seq. which makes the theft of a trade secret a federal criminal offense (Section 1832) as well as acts of economic espionage (Section 1831) committed by anyone for the benefit of a foreign government, foreign instrumentality or foreign agent.

China is unusual in that trade secret protection evolved from the protection of state secrets, and trade secrets were gradually separated from state secrets. An advanced secret protection system emerged between 1993 and 1998. In 2001, China joined the WTO and made considerable changes to its laws and regulations in order to comply with the TRIPS Agreement.

In Korea, trade secret protection started in 1991 in anticipation that the TRIPS Agreement, which was concluded in 1994, would include certain provisions on trade secrets. In Japan, trade secrets were generally protected under the Civil Code (contract law), Commercial Code and Penal Code. In 1990, also in anticipation of the TRIPS Agreement, the Unfair Competition Prevention Act was revised to have specific provisions on trade secrets.

In Thailand, a registration system exists for trade secrets.

In Argentina, trade secrets used to be generally protected by the Penal Code and contract or labour laws. In 1996, a specific statutory law was enacted for the protection of trade secrets and data submitted to regulatory agencies. In Paraguay, according to statutory provisions, trade secret protection is limited to three years, whereas the TRIPS Agreement is directly enforceable.

The reports of most European Groups including the Turkish Group as well as those of the US, Australia and Canada noted that the TRIPS Agreement had little or no influence on the legal developments of trade secret protection. The report of the Mexican Group noted the impact of NAFTA (North American Free Trade Agreement). On the other hand, many Asian and South American countries, including Japan and Korea, felt significant impacts of the TRIPS Agreement. Latvia and Egypt also had specific statutory provisions in response to joining the TRIPS Agreement.

### **Definition of trade secret**

While the precise language varies among different jurisdictions or statutory provisions, the definition of a trade secret broadly includes three elements: security precautions, value, and relative secrecy, as required by the relatively lengthy definition of "undisclosed information" provided in Article 39.2 of the TRIPS

Agreement. Most countries adopt a definition of relative secrecy that is simpler than the complex definition provided in item (a) of Article 39.2.

Under UK law, the criteria that have to be satisfied are: (a) The information must have the “necessary quality of confidence” (it must be “secret”); (b) The information must have been “imparted in circumstances importing an obligation of confidence” upon the recipient; and (c) There must be unauthorised “use of the information to the detriment of the party communicating it.” According to common law in the US, a trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others (Restatement of the Law (Third), Unfair Competition, Section 39, 1995).

According to the Mexican Group, a trade secret is defined as “any industrially or commercially applicable information which a natural or legal person keeps and which is confidential in nature and is associated with securing or retaining a competitive or economic advantage over third parties in the conduct of economic activities, and regarding which said natural or legal person has adopted sufficient means or systems to preserve its confidentiality and restrict access thereto.”

In China, Article 10 of the Anti-Unfair Competition Law enacted in 1993 provides that “the term ‘trade secret’ used in this article refers to technical and operational information which is unknown to the public, capable of bringing economic benefits for the right holder, practically applicable, and the secrecy of which is guarded by specific measures adopted by the right holder.”

Similarly, in France, the current Industrial Property Code includes the expression “secret de fabrication” (“manufacturing secret”), which apparently is somewhat limiting, as the replacement of the expression “secret de fabrique” (“trade secret”) since May 2008. A related notion of “secret d’affaires” also exists in French law.

The Australian Group noted that the concept of confidential information covers two distinct categories of “know how” and “trade secrets”. According to the Australian Group, “know-how” generally refers to the knowledge of how to do something. It is usually acquired through experience. On the other hand, the term “trade secret” means information of a more specialized, detailed and confidential nature. In broad terms, a “trade secret” is something that “a man of ordinary honesty and intelligence would recognize to be the property of his old employer, and not his own to do as he likes with,” although such confidential information is not, strictly speaking, recognised as property.

In view of the above, it may be useful in our analysis to consider two categories of “trade secret” separately in certain instances: trade secrets that arise in commercial or financial activities, and trade secrets that arise in manufacturing and engineering.

### **Control of trade secrets**

As mentioned above, the US Supreme Court held that a trade secret is a property right (*Ruckelshaus v Monsanto*, 467 U.S. 986 (1984)). The Egyptian Group noted that trade secrets are the object of a property right that comes under the control of a natural or legal person. The Canadian and Australian Groups noted that a trade

secret is associated with certain rights akin to property rights, but they explicitly stated that trade secrets and confidential information are not property, so that issues of co-ownership do not arise in the same way as for other types of intellectual property. For example, the UK group pointed out that more than one party be owed a duty of confidence in the same information. The Group reports from Israel, the Philippines, Thailand, and China explicitly discussed the owner or ownership of trade secrets. In other Group reports, only control over trade secrets is discussed.

In most jurisdictions, under general principles of employer-employee contracts or relationships, the employer has control over trade secrets. In a number of jurisdictions such as the US and Japan, different principles may apply to what can be categorized as an “invention” or a “copyrighted work”.

Generally speaking, control issues become complicated when an employee changes employer. A balance must be found between employees’ freedom of vocational choice and the employers’ ability to control trade secrets.

In Australia, there exists a distinction between know-how and other confidential information, and an ex-employee is entitled to use the employee’s know-how.

### **Source of law**

Generally speaking, some legal provisions are available for the definition or protection of trade secrets, except in the UK and Canada. In many jurisdictions, layers of laws, such as contract law, civil code, and specific unfair competition or state secret statutes, are available for trade secret protection. Only a few jurisdictions, such as Argentina, Brazil, and Indonesia, seem to allow the direct application of the TRIPS provisions.

### **Remedies**

A standard set of remedies, such as injunctions and damages seem to be available in most jurisdictions for the violation of trade secrets. However, the availability of preliminary injunction orders is limited in certain jurisdictions.

Damages are available in basically all jurisdictions, and in many jurisdictions, damages may be calculated based on the profits of the infringer or on a reasonable royalty basis. In a number of Group reports, it was noted that courts tend to be reluctant to provide adequate protection for trade secrets. Because of difficulties associated with trade secrets, the use of copyright or other IP protection is recommended over trade secret protection in some reports.

In a limited number of jurisdictions, such as Israel and Australia, statutory damages<sup>2</sup> may be available. Also, in a few jurisdictions, such as Turkey and Thailand, punitive damages are available. In the US, exemplary damages up to twice the amount of ordinary damages may be available. Comments concerning the “gross negligence” provided in footnote 10 of Article 39.2 related to third party acquisition of a trade secret are very varied among a relatively small number of Groups that responded to our inquiry.

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<sup>2</sup> Statutory damages are pre-established damages for cases where calculating a correct sum is deemed difficult.

Criminal remedies are available in a large number of jurisdictions. Administrative remedies are available and seem to play important roles in countries such as China.

Other remedies, such as seizure orders or preservation of evidence, seem to be available in accordance with local laws and court rules generally applicable to IPR enforcement.

### **Protection of trade secrets during and after court proceedings**

Protection of trade secrets should be considered in two phases: during and after court proceedings and in pronouncements of judgement. The court should have discretionary authority on what is and is not included in a judgement, and we should deal with trade secret protection during and after court proceedings in view of the open court principle used in nearly every jurisdiction.

Currently, only a very small number of jurisdictions do not provide protection for trade secrets against public disclosure through court proceedings. The manners of such protection are different in different jurisdictions, but the spirit of protection seems very similar. In some jurisdictions, protective or sealing orders are utilized, or parts of court proceedings may be closed to the public. In other jurisdictions, *in camera* procedures are used. In view of the last sentence<sup>3</sup> of Article 42 of TRIPS, it should probably be encouraged to set minimum standards for protection of trade secrets during civil proceedings before the court.

### **Licensing trade secrets**

Although drafting a licensing agreement involves issues specific to trade secrets, licensing of trade secrets does not seem to differ from other types of IP licensing. With respect to anti-trust considerations, the block exemption rules may be applicable, and such clauses as tying or price fixing are generally considered black or grey in accordance with ordinary anti-trust regulations.

A number of practical problems associated with trade secret licensing are discussed by Group reports. A number of Group reports stressed the importance of non-disclosure clauses in any trade secret licensing agreement. Also, another issue that may come up associated with trade secret licensing is unmet expectation. Because the licensor is unwilling to disclose the trade secret including undocumented know-how before the agreement is concluded, the licensee may not be able to fully evaluate the value of the trade secret and may be disappointed. Furthermore, the duration of the license may become an issue, because when the subject trade secret happens to become public, the license may have to be terminated amicably. Some clauses may be useful in the agreement to resolve these kinds of situations.

### **Effectiveness of Non-disclosure and Non-use Agreements**

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<sup>3</sup> The last sentence of Article 42 reads as follows: The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.

Groups provided full and interesting discussions on NDAs and unilateral imposition of secrecy or non-use upon departure of an employee from the company. These issues are clearly relevant and real in our business, and the level of interest among practitioners is high.

However, it is difficult to extract common grounds among different countries and jurisdictions. At least, there seem to be choice of law when considering non-disclosure and non-use agreements. They may be considered under unfair competition laws or contract laws, or both. The Danish group noted that the unfair competition law prevails the contract law for NDAs.

Also, as to the doctrine of inevitable disclosure, such groups as the Dutch and Japanese groups pointed out the a balance is important between protection for employers and freedom of movement of labor.

### **Harmonization**

Many Group reports presented excellent discussions on harmonization. Among those, the reports of the Australian, Chinese, Egyptian, Estonian, Finnish, Swedish, Swiss, and French Groups contain particularly interesting and useful discussions.

### **Definition**

The definition of trade secret provided in the TRIPS Agreement has broad support. More than 80% of the Groups which answered our inquiry favored or supported the definition provided in the TRIPS Agreement. Several Groups including the US, Korea and Israel stated their own definitions of a trade secret without commenting on the TRIPS definition of trade secrets. Only two Groups expressed clear dissatisfaction with it. Some Groups suggested that it is not necessary to have a common definition.

In view of the different definitions used in different jurisdictions as discussed above in the section of "Definition of trade secret," it is apparently important to urge that the definition of trade secret or "undisclosed information" provided in Article 39 of the TRIPS Agreement be adopted or honoured in every jurisdiction that is a party to the Agreement.

### **Desired local improvements**

In response to the question of what is desired in your jurisdiction, Groups provided useful insights into current problems. In most countries, a basic legal framework has already been established for trade secret protection.

Weaknesses may be present in enforcement. Judges are often unwilling to provide adequate protection for trade secrets, probably because they are not familiar with trade secret issues and they are unaware of the practical importance of trade secret protection. One Group even recommended using copyright protection instead of trade secret protection because the chance of prevailing is higher in copyright cases. This seems particularly true for trade secrets of commercial or financial nature, whereas technical trade secrets on know-how and process parameters have a better chance of receiving adequate protection.

Another area of weakness recognized by many Groups is the protection of trade secrets during court proceedings. One way of dealing with this problem is protective or sealing orders and *in camera* proceedings. The UK Group discussed the idea of a “confidentiality club” in which only judges and attorneys may examine certain evidence, and the Danish Group supported it. Also, several Groups indicated that measures for keeping trade secrets confidential during criminal proceedings are still missing in their jurisdiction.

In several jurisdictions, statutory provisions for trade secret protection are scattered among different pieces of statutes, and a single statute designed for trade secret protection is desired. In this connection, it should be noted that the Trade Secret Act, which came into force in 1990, exists in Sweden.

### **Global standards**

Local improvements discussed above can naturally be mirrored into what would be required as global standards. We should be able to stress the importance of actual enforcement before the court and protection of trade secrets during civil and criminal court proceedings. The court’s attitude toward trade secret protection may have to be changed, and the plaintiff’s high burden of proof may also have to be eased.

Also, several Groups stressed the importance of having preliminary injunction orders available for trade secret protection. Furthermore, it should also be possible for the court to issue an order to compel a party to take affirmative steps to protect trade secrets.

The Swiss Group pointed out the lack of inquiries in the present study on the impact of modern copying and reverse engineering on trade secret protection and the question of legitimate use for, e.g., due diligence reviews.

### **Way to proceed**

Many Groups favored a multi-national approach, but they also recognized difficulties associated with this and suggested regional or bilateral approaches coupled with something like free trade agreements or economic partnership agreements. A few Groups suggested local lobbying efforts as a way to pursue. The Spanish, Czech, UK, Portuguese, Estonian, and Austrian Groups suggested that harmonization among EU countries should be enhanced.

### **Summary**

The forty Group reports submitted by our national and regional Groups form an excellent body of comparative law. We now have a fairly clear view over the landscape of current affairs in many jurisdictions. It has become clear that the TRIPS Agreement has had a strong impact in the area of trade secret protection in jurisdictions that did not have a strong tradition of trade secret protection, and has created a good starting point from which to proceed.