

## **Working Guidelines**

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### **Question Q215**

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

##### **Introduction**

1. As people and investments move freely across national borders, trade secret protection has become an international issue. In order to encourage technology transfer and investments, international standards for trade secret protection have to be discussed and improved. Also, a key word is “open innovation.” It is becoming more difficult for a single company to design a new product alone. Numerous parties, such as different companies, research institutes and universities, are involved, and trade secret protection is increasingly important as a basic framework for collaborative product development.
2. On the other hand, the Paris Convention only requires effective protection against unfair competition in general (Article 10bis) and does not mention trade secrets explicitly. In the TRIPS Agreement, which was concluded in 1994, although a definition of “undisclosed information” is included in Article 39,<sup>1</sup> it merely mandates its members to provide the “possibility of preventing” unwanted disclosure, acquisition and use of such information. The general principles provided in Part III “Enforcement of Intellectual Property Rights” of the TRIPS Agreement also apply, by virtue of its Article 42, to undisclosed information. It is interesting to note that during the TRIPS negotiations, it was concluded that the fact that the undisclosed information is deemed to be a “category” of intellectual property right does not imply the existence of “property” rights in undisclosed information.<sup>2</sup>

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<sup>1</sup> Article 39.2 of the TRIPS Agreement provides that:

2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
  - (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
  - (b) has commercial value because it is secret; and
  - (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

<sup>2</sup> See Chapter 28 in “Resource Book on TRIPS and Development,” UNCTAD-ICTSD, published by Cambridge University Press in 2005,  
A copy is available at [http://www.iprsonline.org/unctadictsd/docs/RB\\_2.28\\_update.pdf](http://www.iprsonline.org/unctadictsd/docs/RB_2.28_update.pdf)

3. In 1996, WIPO recommended a model provision for the protection of "secret information" as a part of its efforts to propose model provisions for unfair competition in general.<sup>3</sup> This model provision for secret information (Article 6) includes four sections on (1) general principles, (2) examples of acts of unfair competition with respect to secret information, (3) a definition of secret information, and (4) use or disclosure of secret information submitted for the procedure of marketing approval.
4. Trade secrets can be protected, first of all, on a contractual basis between the holder of the secret and business partners. In this context, issues of contract law and labour law may play a primary role.
5. The focus of Q215 will, however, be on how trade secrets, as part of the intellectual property of a company, can be protected through IPR or provisions against unfair competition. Since trade secrets differ from other intellectual properties in that they are based on confidentiality, their protection requires special measures that may be different from those for patents, designs and copyrights. This includes specific measures to be taken during court proceedings when trade secrets are at stake.

### **Previous Work of AIPPI**

6. Under Q53A, AIPPI studied know-how. 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.
7. Also, under Q115 entitled "Effective protection against unfair competition under Article 10bis Paris Convention of 1883," AIPPI broadly studied unfair competition including trade secrets at the Copenhagen ExCo meeting in 1994. The Q115 resolution adopted in Copenhagen lists certain acts as examples of the violation of trade secrets (Q115 Copenhagen).<sup>4</sup> AIPPI continued its work on trade secrets under Q115 during the Montreal Congress in 1995 (Q115 Montreal), focussing on the situation where the trade secret was received in good faith. The Q115 Montreal resolution included the analysis of the liability of a third party that received a trade secret in good faith.
8. Furthermore, under Q134, AIPPI studied enforcement of intellectual property rights under TRIPS, without specifically addressing trade secrets. Under Q138A, AIPPI studied confidentiality, disclosure and publication of data in information networks,

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<sup>3</sup> "Model Provisions on Protection Against Unfair Competition," published in 1996 by WIPO; Publication no.: 832, Pages: 68, Price: 15 Sfr., [http://www.wipo.int/ebookshop?lang=eng&cmd=display\\_pub&cat\\_id=1014](http://www.wipo.int/ebookshop?lang=eng&cmd=display_pub&cat_id=1014)

<sup>4</sup> In Q115 Copenhagen Resolution, it was stated as follows:

- 11.10 confidential commercial and industrial information should be protected as a trade secret;
- 11.11 any violation of a trade secret should constitute an act of unfair competition, in particular
  - industrial or commercial espionage,
  - use or disclosure of a trade secret improperly obtained from the proprietor,
  - unauthorized use or disclosure of a trade secret by a person, to whom the proprietor entrusted it,
  - the use or disclosure of a trade secret without consent of its proprietor, which was received from a person to whom it was entrusted or who obtained it improperly, if the user knew or should have been aware of this fact,
  - the question, whether this should apply even if the trade secret was received in good faith should be studied further.

and the national groups were invited to describe the legal and deontological rules resulting from such usage and to determine which information needs to be considered as confidential in this context.

## **Discussion**

9. Under Q215, we would like to study the overall protection of trade secrets with a focus on IPRs and unfair competition laws. Espionage on government or national security information *per se* is outside the scope of Q215. Also, we do not intend to study under Q215 the secrecy of information submitted to authorities for marketing approvals (known as “data exclusivity” as mentioned in Article 39.3, TRIPS). The latter is a topic of great importance and should be treated separately by AIPPI in an appropriate forum in the near future.
10. Fifteen years after the TRIPS Agreement came into force, we would like to review the current situation in the Groups’ jurisdictions concerning the protection of trade secrets and make an attempt to establish international guidelines toward their effective protection. For this purpose, AIPPI would like to study trade secrets in terms of their definition, source of law, remedies and litigation tools, such as protective court orders. In this context, we also need to look at non-disclosure agreements and their enforcement and effectiveness in each jurisdiction.

## **Definition of Trade Secrets**

11. In contrast to such universally accepted terms as “trademarks” and “patents”, a variety of terms is found for designating confidential information that deserves legal protection, such as “undisclosed information”, “trade secret”, “confidential knowledge”, “industrial secret”, “business secret” and “know-how”, with such a variety resulting, for example, from certain conceptual differences existing in the legal systems. Although these terms are often used as synonyms, many studies have been dedicated to distinguish differences and relationships among them. It is relevant therefore to precise that Article 39.2 of TRIPS meant to adopt a “neutral” expression which could be accepted by all jurisdictions, dealing for this reason with “undisclosed information”, which we are using here as a synonym of “trade secret”. This article of the TRIPS Agreement created for the first time an internationally accepted standard, consolidating the three basic conditions of protectable undisclosed information, generally understood as information that: (1) is not generally known to the public (relative secrecy), (2) confers some sort of economic benefit on its holder (value), and (3) is the subject of reasonable efforts to maintain its secrecy (security precautions), although no internationally agreed definition exists. Trade secrets may include corporate information, such as business strategies and plans, client lists, internal manuals and research reports, as well as technical know-how, such as secret recipes for commercial products, process parameters for chemical reactions and other manufacturing know-how.

## **Ownership or Control of a Trade Secret**

12. Another important issue is the ownership or who is in control of trade secrets. Considering that in many jurisdictions, trade secrets are not the object of a property right, and that therefore, “ownership” of trade secrets does not apply to them, the TRIPS Agreement introduced the concept of their “control” by a natural or legal person. An idea or invention may be owned by an employee who conceived it and a client list or other types of collection of information created under the assignment

given by the employer may be owned or controlled by the employer even if it originates from the employee's personal knowledge and skills.

### **Source of Law**

13. The protection of trade secrets may be based on case law, statutory provisions specifically designed for trade secret protection, unfair competition law, other statutory provisions for IP protection in general, civil code, contract law and labor law. Some rules developed as customary law or in terms of deontology may also have an influence on the legal framework for trade secret protection. The relevant provisions in the TRIPS Agreement may be a direct basis for protection in certain jurisdictions, whereas TRIPS is not directly applicable in others. Trade secrets may be protected under property rights or simply against misappropriation or dishonest commercial practices. While we are not specifically looking into other types of protection of undisclosed information such as data exclusivity or government or military information, such protection may have some relevance to our core issues.

### **Relationship with other Types of IP**

14. An undisclosed invention may be a trade secret before it is disclosed to the public by the patenting authority, as well as a trademark and a design may be protected as trade secrets before an application for their registration is filed. For certain types of inventions such as process inventions, there may be a choice between patent protection, which normally requires publication of a patent application for the invention, and trade secret protection. For copyright protection, employee's work may be originally owned by the employer in many jurisdictions, and relevance of the ownership of employees' work to trade secrets is an interesting issue. It should be analyzed if and to what extent copyright protection is available against unauthorized distribution of secret information. Freedom of speech and rights of whistleblowers may have some bearing on trade secret protection.

### **Licensing Trade Secrets**

15. Some definitions and comparative studies of "know-how" and "trade secrets" locate the origin of the former term in the contractual practice while the latter is used to mean the object of legal protection. The expression "licensing know-how" is in fact predominantly used in practice, rather than "licensing a trade secret", but the latter will be used here for study purposes. There are significant differences in the process of licensing trade secrets as compared to licensing other IP rights. Licensing trade secrets requires special care, because once secrecy is broken, trade secrets may become worthless, and the licensor generally wishes to have good control over what the licensee can or should do. The question of the governing law needs to be clarified in order for parties to be able to draft proper licensing agreements. On a global license, differences among different jurisdictions may have strong implications. Trade secret licensing agreements may also be subject to anti-trust regulations.

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

16. We commonly use non-disclosure agreements (known as "NDAs"), which usually include non-use obligations as well, in almost all kinds of business negotiations and transactions. We need to look at the effectiveness of such agreements in reality in terms, for example, of court precedents. Furthermore, the effectiveness of a non-

disclosure and non-use requirement imposed on employees after leaving the company may be an important issue, in particular in cases where these are imposed on the employee by the employer unilaterally. An employee may leave and go to a competitor with trade secrets. He or she may possibly go to another country to help a competitor in that country. The leaving employee should be entitled to keep using his or her acquired professional expertise, but such information as (a) information that is vital for the survival of the company (e.g. the Coke recipe), (b) information that has a substantial impact on the continued business success, and (c) other information which is typically not disclosed to the outside world need to be protected. The question is whether an employer has an effective means for protecting its trade secrets through NDAs and to what extent these agreements integrate the reasonable steps required for enforcement by the person lawfully in control of the trade secret.

## **Available Remedies against Violations**

### **Prohibited acts**

17. It is probably clear that prohibited acts may include obtaining and using trade secrets, and disclosing them to a third party without authority. It may also be prohibited to knowingly or negligently obtain or use improperly acquired trade secrets. It may not be clear whether the use of trade secrets obtained, in good faith, from a party who improperly acquired them should be explicitly prohibited. As discussed above, the Q115 Copenhagen resolution may provide a starting point in this regard. Another aspect is, however, what acts are prohibited following the unlawful publication by a third party. Once the trade secret becomes public (in good or bad faith), it is no longer a trade secret and is part of the public domain, so that others can use it freely. We also need to look at acts which perpetuate the violation of the trade secret (use etc.).

### **Injunctive relief**

18. Injunctions may be provided for future acts of trade secret violation. We would like to review the availability of preliminary remedies or temporary restraining orders. It should also be considered whether seizure and return of the objects that incorporate trade secrets should be specifically provided for.
19. Also, what happens after the trade secret has become public by violation of a third party is an important issue. It is a valid question whether injunctive relief in such situation should be available and desirable, and whether or how trade secrets can be returned in practice after they have been made public.

### **Damages**

20. Damages should be recovered through either tort or contract violations. Calculation methods for damages should be reviewed, whereby the possibility of punitive damages may also be clarified.

### **Criminal or administrative remedies**

21. The availability of criminal remedies should also be studied. In some jurisdictions, criminal or administrative remedies may be more important than civil remedies. We need to look at what is reasonable and balanced for effective trade secret protection. Criminal or administrative remedies may play a role in connection with the availability

of civil remedies because it is often difficult to establish, or obtain evidence on, acts violating trade secrets within the framework of civil procedures in many jurisdictions.

### **Protection of Trade Secrets during Litigation**

22. In acquiring or securing evidence (for example in discovery or seizure proceedings) trade secrets may have to be or can be disclosed. Also during the course of, for example, patent infringement litigation, trade secrets may have to be produced to establish acts of infringement before the court. Also, for the meaningful protection of trade secrets, their secrecy must be maintained during court proceedings. Thus, it is very important to have specific procedures or rules to protect trade secrets before the court. Such procedures or rules may come from the code of civil procedure, court rules, or case law. (refer here to Articles 42, 43 and 34.3, TRIPS)

### **Questions**

#### **General**

Groups are asked to give a description of legal developments and the current situation in their jurisdiction with regard to trade secret protection, answering the following questions:

1. Legal developments on trade secrets

How did trade secret protection evolve in your jurisdiction? For example, what kind of practical influence did the TRIPS agreement have on trade secret protection?

2. Definition of trade secrets

What is the definition of a trade secret in your jurisdiction? This may not be an easy question to answer. Some jurisdictions may adopt different definitions for different fields of law – unfair competition law or others. In some jurisdictions, no statutory law provides a definition of trade secrets. It may be useful to focus on the definition that is believed to be most important for your jurisdiction for discussion purposes. Your definition can be based on the conditions required by Article 39.2 of TRIPS Agreement for the protection of undisclosed information as well as the WIPO proposal for the definition of secret information, and/or if it is the case, the definition can be complemented by features required in your jurisdiction, such as the degree of secrecy, novelty and originality that is considered reasonable for enforcement purposes.

3. Control of trade secrets

Also, who is entitled to control trade secrets should be discussed with respect to the employer-employee relationship. Can an employee who conceives an idea or invention may have primary control over it? Can the employer have control over information created by an employee under assignment from the employer even if personal knowledge and skills of the employee are involved? Is co-ownership of trade secrets addressed by your legislation or case law?

4. Source of law for trade secret protection

Are statutory provisions available for the protection of trade secrets? Is protection awarded by case law or court precedents or direct application of the relevant provisions in the TRIPS Agreement? Under your laws, do trade secrets belong to the category of property rights? Or is the protection derived from unfair competition law or other sources of law against misappropriation or dishonest commercial practices?

5. Available remedies

What would be an outline on remedies available against trade secret violations in your jurisdiction? First, types of prohibited acts should be discussed, followed by available relief such as preliminary injunction or temporary restraining orders. It is probably useful to highlight issues particular to trade secrets. Please comment on the list of acts violating trade secret protection provided in the Q115 Copenhagen Resolution. Pros and cons of criminal or administrative remedies should be discussed. Are these remedies also available against someone who obtains trade secrets in good faith?

Does your legislation distinguish trade secret violations committed when the undisclosed information was accessed by means of an employment or other contractual relationship from those practiced by means of fraud, "espionage" or other improper means? Are the same remedies available for the two cases?

How does your jurisdiction apply the concept of "grossly negligent" third parties referred to in footnote 10<sup>5</sup> of Article 39.2 of TRIPS?

Which options are available for damages? How are damages calculated? Is the violation of trade secrets at all subject to punitive damages? If so, under what conditions?

6. Protection of trade secrets before and during litigation

This question has two aspects: one is the protection of trade secrets during, say, patent infringement litigation, and the other the maintenance of secrecy of trade secrets so that the person lawfully in control can safely seek remedies before the court. How does your statutory law incorporate the rule contained in the last sentence of Article 42, TRIPS?<sup>6</sup> What specific measures or means are available for the effective protection of trade secrets before (in discovery and seizure proceedings) and during litigation?

7. Licensing trade secrets

What are issues relevant or important for contractual aspects regarding trade secrets? How important are anti-trust considerations in your jurisdiction?

8. Effectiveness of non-disclosure and non-use agreements

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<sup>5</sup> Footnote 10 states that: "For the purpose of this provision, 'a manner contrary to honest commercial practices' shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition."

<sup>6</sup> Article 42, entitled "Fair and Equitable Procedures", provides, at its last sentence, that: "The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements."

What is the practical effectiveness of non-disclosure and non-use agreements in your jurisdiction? Are any important court precedents available? Which of contract law or unfair competition law prevail in this regard? Is unilateral imposition of non-disclosure after leaving the company or retirement possible in your jurisdiction? Does the US doctrine of inevitable disclosure exist under your laws?

### **Harmonization**

9. Common and practical definition of trade secret

As discussed above, the TRIPS Agreement deals with “undisclosed information” which is basically the same as what we discussed as a “trade secret,” primarily because the term “trade secret” may have different meanings in different jurisdictions. Groups are asked to consider whether a common and practical definition of trade secret is viable or even desired. Are there any proposals for such a definition, or is the definition provided in the TRIPS Agreement sufficient for our purposes? Should there be a minimum standard for information to qualify as a trade secret? If so, what should the standard be?

10. What is desired in your jurisdiction?

What are perceived as current problems in your jurisdiction? What is desired or needed for effective protection of trade secrets? What kind of improvements in your own system for trade secret protection is sought? Also, are there any legal provisions or practices that you may consider to be advantageous in your jurisdiction compared to other countries?

11. What is required for an improved global standard for trade secret protection?

As discussed above, collaboration among different entities in product development is becoming more important on a global scale. Groups are asked to entertain proposals for enhancement of international standards on remedies against trade secret violations. Groups are also asked to comment on what is necessary in practice for the protection of trade secrets during litigation and to discuss proposals for standard means available in court proceedings.

12. What would be a desirable and realistic way to proceed?

For future possibilities, we have a choice among another multilateral convention, bilateral agreements or agreements among certain countries that are regionally close to each other or in similar stages of industrial development. What would be, in your view, a realistic way for us to proceed?

13. Other comments?

**Note:** It will be helpful and appreciated if the Groups follow the order of the questions in their Reports and use the questions and numbers for each answer.