

Protection of Trade Secrets and Confidential Information

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I. Introduction

1. The TRIPs Agreement aims at protecting intellectual property rights. "Over the long term, intellectual property should be treated on the same basis as other traded commodities, and appropriations or transfers of intellectual property at less than full value should be subject to the same considerations as any other below-value appropriation or transfer, whether prohibited, compensated for, or treated as other forms of economic aid"¹. In a sense, the whole TRIPs Agreement bears on proprietary information, be it protected by patents, copyrights, or designs and models. Nevertheless, only Article 39 TRIPs covers what the intellectual property parlance labels "proprietary information", that is confidential information which is otherwise not protected by patents, copyrights or designs and models. Up to now, the usual terminology to connote such information has been "trade secrets", and the wording of Article 39 TRIPs should not detract from this understanding of the subject matter.

2. The inclusion of trade secrets under the TRIPs has been hailed as a major innovation². At the onset of the Uruguay Round, trade secrets were mentioned in the U.S. Proposal of October 28, 1987, then in ensuing European and Swiss proposals³. Brazil and India, among others, opposed the inclusion of trade secrets on the agenda. In 1989, the Indian Government exposed for example that trade secrets are not a form of intellectual property right and that the licensing of proprietary information is not a licensing agreement; further, the protection against unfair competition under Article 10 bis of the Paris Convention⁴ would suffice; finally, protection by contract and under civil law was to be preferred to intellectual property rules⁵. None of those tenets has been accepted by the community of nations, as Article 39 TRIPs now demonstrates.

The significance of Article 39 TRIPs may be best seen in the light of the Mexican turn-about of 1991. Until then, Mexican law provided only very limited protection⁶ for trade secrets, but the new Act of 28 June 1991 represented a sharp reversal of the legal situation, in this area as in other related areas such as chemical, pharmaceutical, agrochemical and biotechnological patents⁷. This changing policy had been preceded by Mexico's placement on the United States Trade

Representative priority watch list, the negotiations towards the North-American Free Trade Agreement, and changes in the political leadership.

In other South countries, there appeared to be no effective protection of trade secrets, at least as seen through the binoculars of the U.S. industry⁸. However, sweeping statements as to the effectiveness of legal rules in this regard tend to be impossible. Unlike the patents for invention, that are delineated in statutory enactments both precise and detailed, trade secrets are usually protected either under common law rules that were laid down by courts of law⁹, or under unfair competition statutes that lack uniformity and are therefore difficult to compare to each other.

3. All in all, Article 39 TRIPs is the first multilateral acknowledgement of the essential role that trade secrets play in industry. It is the embodiment in the world's law of the American and European notion of protecting confidential information as a means of fully protecting intellectual property rights, even where no disclosure to Society has taken place (as under the patent system and copyrights for published works). This general rallying behind the western view of the protection of trade secrets as beneficial to the industry and to the transfer of technology may be explained by mundane factors, such as the general trade-offs that were made possible within the Uruguay Round negotiation, or the influence of the pharmaceutical industry over the whole process¹⁰. However, its significance for legal theory and practice is in no way undermined by its origins.

Specific studies on the economics of trade secret protection are not known to this writer. Courts of law and commentators alike are fond to speculate on the overall effect of granting a safer legal regime to proprietary information. For example, recent commentators of Article 39 TRIPs reach identical conclusions as to the favorable impact of that provision on North-South transfer of technology : the protection of trade secrets should limit the "risk premium" component of lump-sum payments often required by the providers of unpatented technology¹¹. This argument is based on the hopeful assumption that businessmen know about the trade secret regulations of the countries of their would-be partners and that they believe in fair, speedy, low-cost and effective judicial procedures abroad. It is a jurist's view of the impact of a law, not a lawyer's view. Every lawyer knows that trade secrets of value are much harder to get under a licence agreement than patent rights, because trade secrets are in fact protected by their confidentiality - while patented inventions are already disclosed. Therefore, an intimate, deeply-felt trust towards the partner is much more of a prerequisite in the licensing of trade secrets than it is in the licensing of patented inventions, or of a design or of a trademark. Of course, on the long run, the increased awareness of the new legal status of trade secrets around the world might contribute to establish a better climate of confidence between licensors and would-be licensees, and the authors of the TRIPs have been right to insist on that particular element of trustworthiness which is afforded by secrecy¹².

4. The apparently paradoxical approach of the TRIPs Agreement is to enhance both patent protection and trade secret protection. During the late 60's and well into the 70's, the fundamental question was whether the legal protection of trade secrets would not turn out to be detrimental to the patent system. This is the all-important issue that the U.S. Supreme Court addressed in a few decisions¹³. The tentative answer was that, in the absence of a traditional strategy of the corporation to the contrary, most patentable inventions would be subject to a patent application, all the more so before the United States Patent Office, since U.S. patent applications are not published, contrary to the European Patent Office procedures. The law of trade secrets would then protect only unpatentable know-how or those rare patentable inventions that may not be reverse engineered by analysing the product put to the market¹⁴. Further, there would be no real alternative, for the trade secret protection is less effective, to the extent that a third party which develop independently the same technology cannot be prevented to use it, even against competitors who did get hold of the trade secrets in a derivative way from the original owner, a just cause of action is sometimes difficult to find before a court of law; unlike for patents, there is no automatic protection for trade secrets following a registration by an administrative body, since trade secrets are not subject to the grant of a title by the Patent Office or any other office.

Still, the underlying conflict of philosophies between the protection of trade secrets and the patent system deserves to attract more attention in the future comments on TRIPs. For example, while it may well be that "TRIPs will also make technological developments more transparent : to protect intellectual property is to make it public !" ¹⁵, nonetheless, to protect trade secrets means to bury them under the cloak of secrecy. To take a different point, this writer cannot see the logic of the reasoning saying that the "economic function" of Article 39 TRIPs is that "entrepreneurs in both developed and developing countries may legitimately acquire unlicensed technology through self-help methods of reverse engineering even when copycat duplication that avoids any contribution to the global costs of research and development might otherwise violate copyright or unfair competition laws"¹⁶. The "function" of Article 39 TRIPs is to protect trade secrets, not to allow reverse engineering - which might be allowed under some legal orders, at present, but might also have been outlawed by Article 39 TRIPs - since, as Professor Reichmann points out, the definition of trade secrets embedded in Article 39 TRIPs closely follows Sec. 38 et seq. of the Restatement (Third) on Unfair Competition Law (1995), but does not mention reverse engineering contrary to the Restatement.

In other words, protecting trade secrets does not mean acknowledging that they are in the public domain, ripe for piracy by analysis or otherwise. On the contrary, Article 39 TRIPs removes any and all objections that would be based on the notion that patent law, design and model law and copyright law exhaustively delimit the private domain, every other information being in the public domain.

5. For the same reason, it seems fair to note that one of the observations put forward for the TRIPs generally does not appear too convincing : since developing countries specialize in R + D operations aiming rather at incremental innovations, at "frontier-following" than at "break-through", "pioneer inventions", they should welcome the introduction of "minor", "small", "petty" patents, or "utility models" along the German and Japanese models¹⁷.

In fact, the point might be made that there is more functional competition between utility models and trade secrets than between trade secrets and full-fledged patents with their powerful monopoly enjoying extended duration and trade secrets, since utility models are of a short duration and do not protect against technical equivalents. Nonetheless, it does not seem that the high protection that Germany has granted to trade secrets impedes the recourse to the "petty patents".

From the point of view of developing industries, utility models or small patents might be preferred, since they disclose the technology which is protected, thus allowing more easily to "invent-around" than trade secrets. However, the thrust of introducing a utility model system is to allow for monopolization of obvious inventions, therefore clogging precisely the technological fields in which emerging industries are mostly active.

6. The last general observation concerns the Paris Convention protection for trade secrets. Article 10 bis Paris Convention does rule that

"(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition."

and that

"(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition."

From the Continental European tradition, no more needed to be said for an effective protection of trade secrets. Nevertheless, the concept of unfair competition is much less developed in the United States and in many other non-European countries. Under U.S. law, unfair competition mainly connotes the "passing-off" of one's wares, products or services as the wares, products or services of another competitor (see Sec. 43 [b] Lanham Act¹⁸). Therefore, it was necessary to single out the trade secrets as property rights, so as to assure the broadest protection even in these countries where the misappropriation doctrine never took hold.

II. Theory of Protection

7. It is a matter of public policy to protect trade secrets, and Article 39 TRIPs requires the Contracting States to protect confidential information. Among the various theories that have been put forward to justify such a protection, the three main concepts appear to be the following :

A. Contractual Obligation

8. The duty not to disclose confidential information generally stems from a contractual relationship between the owner of the trade secret and the person(s) to whom the trade secret is communicated. It may be an employment contract, or a licensing agreement, an OEM contract, a commissioning agreement, a contract for works, a joint-venture, a partnership, etc.

The confidentiality agreement may be separate, or embodied in a clause of the other agreement. The obligation may be explicitly undertaken or implied in fact. Liquidated damages or - if the applicable law permits - contractual penalty may accompany the agreement. So, in many litigations, it is sufficient to take the agreement between the parties as the ground for the confidentiality.

Nevertheless, the contractual theory is of difficult application each time that the party to which the benefits of unduly working the trade secrets or putting them to use in some manner is not the party to the agreement with the owner of the trade secrets. This may be the case when an employee defects and joins a competitor of the legitimate owner; the competitor is usually under no contractual obligation to maintain secrecy nor to abstain from using the trade secrets. The same may be said in the case of a licensee who unduly divulges the trade secrets to a third party, be it an under-licensee, or a contracting producer.

Further, the contractual theory does not explain why many nations such as France, Germany, Switzerland and most U.S. States protect trade secrets under criminal law.

B. Fiduciary Relationship

9. The English law of trade secrets is based on the notion that in given circumstances, the law implies a duty of secrecy. For example, if a recipe for a drug has to be disclosed to the apprentice of a veterinary, there shall be a duty of confidentiality, even if no corresponding agreement is to be proven before the court¹⁹.

The same notion pervades the Swiss law of trade secrets. For employees, the Swiss Code of Obligations specifies that they have to keep the trade secrets of their employer, notwithstanding the absence of a mention to that effect in the employment agreement (Art. 321 a al. 4 Swiss Code of Obligations) or in the dealership agreement (Art. 418 d al. 1 Swiss Code of Obligations). To explain the confidentiality of arbitral proceedings, the leading Swiss

commentators also resort to the concept of a fiduciary relationship between all interested persons²⁰.

When it is sometimes mentioned in this context that there is an implied duty of confidentiality, the "implication" being made by the law or the court following precedents, the source of the obligation is not in the common intent of the parties at the time they executed whatever agreement may bind them, if any, but in the law itself.

Most common law jurisdictions would base the protection of trade secrets on a fiduciary relationship. Where there is such a relationship, there is confidence, and there should be no breach of confidence. To this theory, footnote 10 of the TRIPs Agreement alludes when referring to "breach of contract, breach of confidence and inducement to breach"²¹.

C. Unjust Enrichment and Misappropriation

10. As the U.S. law knows little of the unfair competition tort as developed in Europe, some important precedents have established that the misuse of trade secrets may be considered as a misappropriation, leading to the unjust enrichment of the respondents²². Against such enrichment, a cause of action independent from any contract or inducement to breach a contract is found to exist at common law.

11. The notion of "inducement to breach a contract" exists in many legal systems²³, but as an exception to the powerful principle of the privity of contracts, it is not often applied in practice.

Therefore, the misappropriation theory gives more stable a ground for fighting against the misuse of trade secrets. In this writer's view, that theory has further the advantage to be universally acceptable, since misappropriation is prohibited as unjust enrichment in the U.S. and as an act contrary to "honest commercial practices" in the wording of Continental European unfair competition laws, a wording that is reflected both in Article 10 bis of the Paris Convention and in Article 39 (2) TRIPs.

12. Moreover, the misappropriation theory has the advantage to explain why a similar misuse, insider's dealing on the Stock Exchange, is prohibited, although the majority opinion in the U.S. seems to lean towards the breach of fiduciary relationship in that particular case²⁴.

13. The misappropriation theory rightly emphasizes the fact that trade secrets are assets of business, "property interests" and it so conforms with the notions of "theft or embezzlement" of trade secrets that are common ground throughout most U.S. States, not the least because the Uniform Trade Secrets Act²⁵ did harmonize the criminal laws of those States. Further, the notion

of a property interest in the trade secrets makes understandable why there can be a licence of know-how, or a sale as the parties wish to agree, or a transfer to the heirs of a deceased owner.

14. There is of course no conflict with the *Associated Press v. News Service* precedent, that did not accept application of the misappropriation theory to news, that are in the public domain²⁶, because trade secrets are not in the public domain *per definitionem*.

That entails, however, an important advantage for the misappropriation theory : a court of law has to carefully scrutinize the status of the alleged trade secrets before protecting confidentiality. Whatever is in the public domain cannot be protected. That strict approach to secrecy shall preclude the law of confidentiality to hinder the free flow of information.

15. The TRIPs Agreement does not choose between those diverse theories. Generally speaking, trade negotiators did not busy themselves with theoretical approaches, which is happy for scholars, who now have to wave the cloak of legal theory on the naked facts of trade secrets protection. The negotiators did not want to exclude any theory either, as the footnote 10 shows. Assuredly, there is no word left on the misappropriation theory in that footnote, but in the Article 39 (2) there is a strong hint that the property right theory - leading to the notion of misappropriation - has been generally accepted, when the text mentions the information which is "legitimately under the control" of plaintiffs. There may be no legitimacy where there is no uninterrupted chain of title to the information, which arguably shows that the property theory is the main theory on which rests the protection of Article 39.

16. The truth is that trade negotiators wanted to reach a definite result, i.e. the effective protection of trade secrets, but left the ways and means to reach it to the national traditions. That thought was clearly expressed in the Swiss draft, which proposed that States parties protect proprietary information "as provided for in Article 10 bis of the Paris Convention" and "as to be provided in their domestic law and practice"²⁷. The efficacy of the enforcement was the main consideration, as with the procedures initiated under Sec. 301 U.S. Trade Law²⁸.

III. Secrecy

17. Article 39 (2) TRIPs does require that the undisclosed information to be protected be secret. It then gives a binding definition of the secrecy requirement :

"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 manner contrary to honest commercial practices¹⁰ so long as such information :

- *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;*

- has commercial value because it is secret; and

- *has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret".*

In short, the TRIPs Agreement requires commercial value and secrecy. Each of these tests shall be briefly expounded hereafter.

18. It will be noted preliminary that the U.S. law has laid down the same requirements, but not always clad in the same wording. For example, the objective aspect of secrecy²⁹ is sometimes described as a requirement of novelty. The requirement of the trade secret evidencing a given value is at times expressed under the concept of usefulness³⁰.

A. Economic Value

19. In fact, the secret character of confidential information takes precedence over all other conditions of protection. If the justification of the protection is to be found in its economic value, in the need to protect the investment made towards gaining the know-how protected as confidential information, the legal regime only imperfectly mirrors that moral justification,

¹⁰ 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".

because what is alluded to by the requirement of "commercial value" is not the proof of a determined investment, but the proof that the trade secret firstly pertains to the business sphere of the owner - and not, for example, to his intimate or private sphere, an area with which the GATT negotiations had no mandate to interfere; further, the information must be scarce, i.e. must not be easy of access. This is not materially different from the secrecy, but the concept of "commercial value" is more appropriate to cover the sheer difficulty of obtaining the techniques or the information in question. The requirement of scarcity implicit in the express requirement of "commercial value" is therefore but another aspect of the condition of secrecy. In that sense, it was not mistaken to say that the value derives from the secrecy (Art. 39 [2] [b]).

There is a further implication to the requirement of commercial value : it alludes to the well-known maxim "*de minimis non curat praetor*".

20. Hence, the "commercial value" requirement is but a threshold, below which no protection may be granted. Thus, there is no need to define precisely which value is required : is it the "subjective" value, i.e. its appraisal by the owner ? No book value exists for most confidential information. It is mainly the usefulness of the information for the going concern that lends some "commercial value" to the confidential information. Value could be best appraised by the headstart that the trade secrets gives to its owner over his competitors. As there is seldom if ever a way of knowing what is the real impact of a certain knowledge on the business either of its owner or of the competitors of its owner, the only realistic approach is to equate value and lost opportunities or suffered losses, as they could be compensated by an award for damages or an accounting of defendant's profits. In fact, however, no businessman will ever file a suit for the misuse of a worthless information, so that this requirement is only of limited interest. Its origin seems to stem from the U.S. criminal statutes, that could not protect trade secrets as property without demanding that some value be established before the court, the exact amount allowing for example to distinguish between a "simple misdemeanor" and a "high misdemeanor"³¹.

21. Although it may be risky to deduce any principle from a requirement of such a humble origin, there is an interesting practical side to it, namely that any kind of undisclosed information which is of commercial value has to be protected under Article 39 TRIPs. This means that technical and commercial knowledge alike partake of that protection. No exclusion for a whole class of information could be provided by national legislation, contrary to the position that was during a long time heralded by some developing countries for patents on drugs or agricultural products³².

To take another example, the U.S.³³ and Swiss³⁴ cases allowing the protection of undisclosed software source code as trade secrets indicate a trend that no legislature could want to reverse.

22. No exclusion *per se* of a whole category of confidential information on more theoretical grounds could be compatible with Article 39 TRIPs. For example, if mastering it has any commercial value, the false or misleading bit of information may be protected as well as the true, "authentic" information - a topic that was hotly disputed among scholars³⁵. The Swiss case law is to the effect that such a piece of information may be protected³⁶. For example, there can be a legitimate interest to hide away from the spies of foreign dictators - a frequent necessity for political refugees, for instance during the Second World War. Of course, "he who comes into equity must come with clean hands", which means that the owner of untrue or misleading information will very often not be deserving of any protection.

B. Secrecy

23. As we have seen, the economic value of information, like that of any good on the market, is dictated by its scarcity. In legal parlance, the word for the economic concept of scarcity is secrecy. We shall attempt to delineate the requirement of secrecy as defined under Article 39 (2) TRIPs in the following manner :

- Objective secrecy is required (hereafter *A*);
- Relative secrecy is sufficient (hereafter *B*);
- Secrecy cannot be denied on the basis of a mosaic-like regrouping of bits of information that are already in the public domain (hereafter *C*);
- reasonable measures to protect the confidentiality of the information are a prerequisite of the protection (hereafter *D*).

1. Objective secrecy

24. The definition of a secrecy under Article 39 (2) TRIPs connotes an objective standard : the undisclosed information shall be secret in the sense that it is not "generally known" or is not "readily accessible to persons within the circles that normally deal with the kind of information in question". That definition mirrors the definition of Article One Sec. 7 (2) of the E.C. Regulation No. 556/89 of November 30, 1988 on the application of Article 85 (3) to certain categories of know-how licensing agreements as valid at the time of the drafting of Article 39 TRIPs³⁷.

The secrecy is the equivalent of the novelty requirement under patent law; just as no patent may be issued for a knowledge that is already part of the public domain, no confidential information is deserving of legal protection when it is already in the public domain.

25. Therefore, the "public domain" has to be defined. According to its implicit definition in TRIPs, it is made up of "generally known information", and such information which is easily accessible even if not already known.

At a time when Internet has opened a wealth of knowledge world-wide, the public domain is not ensconced within the narrow boundaries of a particular State, country or region. Nevertheless, it is not possible to state that everything that has been published anywhere in the world is destructive of secrecy - although it is destructive of novelty under patent law. It depends on the real ease of access to the publication. The publication in patent applications abroad, in Japan for example, shall certainly be destructive of novelty under patent law, but it may not belong to what is "generally known or easily accessible" in a given country for the "persons who normally deal with the kind of information in question".

Of course, if the applicant for a patent has disclosed some manufacturing secrets in his application, he can no longer claim their protection as "undisclosed information", at least from the date of publication of the application, or of issuance of the patent under the U.S. patent system. He has not taken the necessary measures to keep them secret³⁸.

Hence, the question may arise only in connection with technical information that is contained in a patent document published in a patent procedure initiated at the request of a person other than the owner of the trade secret. Further, it may be said that the information is not generally known or easily accessible only if there is no custom of checking all, even foreign patent documents in that particular industry. For example, the chemical and the pharmaceutical industries are well-known for using the best data banks on patents worldwide. Every published patent document may be deemed to be "easily accessible" in that industry.

26. On the contrary, a sheer "public" use of the technical information shall not always be destructive of the objective secrecy. Sale of the finished product embodying that information could only put an end to secrecy in these industries which maintain numerous and well-equipped research laboratories, enabling them to analyze products of all technically-advanced countries of the world. In other words, producers of developing countries may more easily get protection for their trade secrets than for the inventions for which they file a patent application, since the standard of patentable novelty includes a disclosure by any means worldwide; which is not always the case for the standard of objective secrecy.

2. Relative secrecy

27. The drafters of Article 39 (2) (a) TRIPs undertook the laudable endeavor to define to whom the information must be unknown or of difficult access. The secrecy is defined relatively

to those persons who normally deal with this category of information. Such a precision is not found in the E.C. Regulation 556/89.

Of course, the apparent precision does not have a great import. These persons to whom it is alluded are the ones who are most likely to know about the information. If they do not know or enjoy easy access to the information, no one else will, unless the knowledge springs up in a haphazard way among uninterested circles, that would not know what to do with it nor recognize its value in any event. Still, the precision may be of some use in two respects.

First, it hinders the overbroad protection of information that is current in a given industry but not much known outside of that area; the plaintiffs cannot plead that the general public should be aware of the information for it not to be a trade secret.

Second, it allows for jurisdiction made up of lay judges who are active in a given economic sector to rely on their perception of what is current knowledge in their circles, thus possibly dispensing with the burdensome procedure of technical expertise or the deposition of expert witnesses.

As already noted, the requirement of only a relative secrecy allows the owner of a trade secret to obtain its legal protection although some other competitors keep the same matter confidential. Nonetheless, if every competitor is aware of that information, it is no longer secret in these circles. The fact that newcomers to the industry would find it difficult to gain access to the information is of no relevance.

C. Mosaic of knowledge irrelevant

28. In order to judge the novelty of an invention, for which a patent has been applied for or granted, it is established law that a prior disclosure of the same invention must contain all essential elements of the invention. On the contrary, in order to appraise the nonobviousness of the same invention, it is sufficient that a man skilled in the art would find it obvious when considering various documents; this is known as the test of the mosaic, each bit of knowledge falling into place in the mind of the man skilled in the art.

For trade secrets there is no requirement of nonobviousness. But, absent the definition of Article 39 (2) (a) TRIPs³⁹, there might be the temptation to deny the secrecy of a given set of information because, if considered separately, most of its constituent parts are already in the public domain. The test of the mosaic would be detrimental to the protection of secret compilations and confidential listings of data. However, their protection may be deserved, because the elements that are as such in the public domain usually gain a new significance when

they are related to each other. For example, the address of a customer is as such in the public domain, as well as might be the general specifications of the products that the industrial installations of that customer require for a smooth, efficient running; nevertheless, the compilation of all addresses of customers with the respective specifications of their installations is confidential, as the precise configuration or assembly of these information is not easily accessible.

D. Reasonable steps

29. The U.S. courts generally require that the owner of trade secrets takes steps to prevent misappropriation. These precautions show his desire for secrecy, which has to be evidenced, particularly towards employees. They may constitute a warning to everyone to respect the confidentiality of the information, akin to a copyright or trademark registration notice.

30. The reasonable steps may consist of warning, video controls, restrictions of access to the place where the trade secrets are put to use, division of work, codes, safes and black box agreements with contractors. A policy of secrecy without any enforcement is not sufficient, except under exceptional circumstances.

In other words, some efficacy should attach to the measures. Of course, the sheer fact of the litigation shows that the steps taken were not sufficient to prevent misappropriation.

31. The most recent Continental doctrine is opposed to this test⁴⁰ finding that it induly narrows the legal protection of trade secrets. Assuredly, States may protect more broadly the trade secrets than is provided as a minimal protection under Article 39 TRIPs. Nevertheless, absent the requirement of precautionary steps, it is difficult to recognize to which extent information which is still confidential in fact should remain so in the future. Take the example of an arbitral award. In the absence of rules in most countries, its confidentiality depends on the intent of the parties. If no steps are taken to protect confidentiality, one of the parties, one of the counsel, one of the arbitrators might leak the award to a legal or trade journal. This should not be condoned, but as there are arguments in favor of publishing awards (for public policy, the development of international trade law, etc.) the parties should very clearly express their intent in the face of conflicting views in the practice⁴¹.

E. Duration of protection

32. Article 39 (2) TRIPs does not give a solution to the difficult question of the duration of the legal protection. As is known, this question mainly arises in two sorts of litigation.

1. Injunctions against Employees

33. If an employee has been convicted of misappropriating trade secrets from an employer, an injunction may be issued against any use or disclosure of the confidential information. The protection being based on secrecy, a logical limitation to the duration of the injunction should be to order the defendant to abstain of certain acts only as long as the confidential information is still secret. Of course, if the wrongdoer has himself sought publication, maybe in obtaining a patent in respect of a technical trade secret belonging to his employer, or in any other manner, then the wrongdoer should not be able to terminate the prohibition of use imposed on him by the decree entered against him : "*nemo audiatur propriam turpitudinem allegans*" ("one cannot invoke in court his own wrongful act").

On the other hand, if a third party is at the source of the general and public knowledge of the formerly confidential information, there should be no further constraints on the defendant, who would then be free to use or disclose the misappropriated information. Assuredly, being now of easy access or generally known, that information will not enjoy great market value, but it may still be of use in the defendant's workshop.

34. The point that trade secret law does not provide for a permanent injunction notwithstanding the eventual loss of confidentiality explains why trade secret protection is no real alternative to patent protection for pioneer inventions, and even incremental innovations, in the fields in which the pace of technical progress is rather accelerated. In these areas, the legal protection which is to be introduced by the national legislatures to comply with Article 39 TRIPs should not detract industry to apply for patents whenever they can.

2. Licensing Agreements

35. A frequent difficulty upon the termination of a licensing agreement encompassing confidential information is whether the know-how should be "returned" to the licensor and whether the former licensee should now abstain from using the information, as such or as the basis of further developments of his own.

Now there is no general rule giving an legally sound and equitable rule in all circumstances. The trend for judges and arbitrators is to order the licensee to stop using the licensed information as such to the extent that it is still secret. On the other hand, if the licensee can show that the information acquired under the license agreement is but a small starting base for its own developments, an order for equitable remuneration may replace the injunction against use. Finally, in most cases no order at all should issue against a former licensee whenever the

information has already become public. The headstart of the licensee over its competitors has already been paid for under the now terminated license agreement.

IV. Honest Commercial Practices

36. The last requirement for the protection of confidential information is that unauthorized disclosure, acquisition or use be made in a manner contrary to honest commercial practices.

This wording takes up the terminology of Article 10 bis (2) of the Paris convention :

"Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition".

A. International Standards

37. As the most authoritative commentator opined, Article 10 bis (2) establishes a criterion which is not limited to honest practices existing in the country where protection against unfair competition is sought :

"The judicial or administrative authorities of such country will therefore also have to take into account honest practices established in international trade"⁴².

For example, it does not conform to the TRIPs Agreement to deny protection to trade secrets alleging that standard practices in the country of the forum allow for the free utilization of trade secrets. This plea was once presented in arbitration proceedings between a Yugoslav company and a Western corporation. The Yugoslav licensee alleged that under Yugoslav common practices, all of the several dozens companies being affiliated to the same conglomerate of enterprises would be entitled to get disclosure of and to use the confidential technical information provided to the licensee, which could not be held accountable for such leaks. Now, this plea could not be entertained one moment under Article 39 TRIPs. Thus, there is a powerful mechanism in the TRIPs, setting up an international consensus on honest and fair practices relating to confidential information.

B. Rights of Employers v. Rights of Employees

38. The most delicate area for the worldwide harmonization of the law of trade secrets shall probably be the interpretation of honest commercial practices regarding employees who depart from a company. The employee undoubtedly enjoys a right freely to use his personal capacities, in-born or acquired skill, zeal, exactitude and memory. Now in his memory, some trade secrets of his former employer will not fade away before he has been able to put them to use in the

service of his new employer, or for himself if he works independently. To which extent is the employee prevented to have recourse to the confidential information he has been acquainted with by virtue of his employment ?

39. A practical, if not very refined test would be to prohibit any use of information that is taken away on documents or electronic supports. This test was applied in a recent computer software case in the United States⁴³ : in view of the striking similarity between both programs, the trier of facts could not believe that the particulars of the "old" program belonging to the former employer that were on a disquette in a drawer three offices down the hall of the desk of the developer of the "new" program had not been put to his disposal by the employee who had just changed his job.

40. Nonetheless, the employee should enjoy the opportunity to use documents if they embody information that is generally known or easily accessible. Further, the employer may legitimately obtain an injunction against the use of one secret formula, even if kept in the mind of the departing employee. Hence, there is no ready-made standard to reach a solution in every instance. The basic principle is, however, that employment is not a "soul-destroying business"⁴⁴. An employee may compete with his former employer and do researches on his own or on behalf of a new employer. The sensitivities of various countries in that area shall be delicate to harmonize.

C. Third party's liability

41. A further difficulty for the globalization of the law of trade secrets might be observed on the question of the third party's liability.

In principle, and contrary to the law of patents, the law of trade secrets does not prevent a third party from using protected information. Nevertheless, the protection granted *vis-à-vis* employees and business partners would barely make sense, if third parties could freely exploit knowledge that has been transmitted to them in breach of the obligations of those confidants.

42. There are two distinct cases. The independent innovator, the competitor who maintains his own research facilities and makes some reverse engineering, or the third party who gains accidental knowledge of the secret information⁴⁵ are under no obligation to the trade secret owner. No liability may arise in the absence of an obligation.

Even if such third parties were put on notice that the trade secret owner is entitled to some protection, the question of their good or bad faith would be irrelevant, since there are no obligations at all to respect the competitive position of the trade owner.

43. On the other side, have to be especially cautious the new employer of a departing employee of the trade secret owner, or the new licensee of the licensor of some technology who was granted back a license to use the confidential information gathered by the former licensee in putting that technology to work. Although they are not under a contractual obligation to the owner of the trade secret, they may commit what footnote 10 to Article 39 TRIPs rightly terms an "inducement to breach" (the contractual or quasi-contractual obligation of confidentiality between the employee and his former employer, or between the former licensee and the licensor).

Nevertheless, the various legal traditions on the liability for inducement to breach are far from being similar to each other, even far from being clear in the law of each country.

In this regard, Article 4 (c) of the Swiss Law on Unfair Competition of 1986 may be one of the few clear-cut provisions dedicated to the repression of the inducement to breach a contractual obligation :

"Commits an act of unfair competition he who induces an employee, an agent or other auxiliaries to disclose or to spy on technical or commercial trade secrets of the employer or principal".

V. Administration and Trade secrets

44. A long standing controversy about the role of the public administrations of the developed countries in the area of transfer of technology is put to rest by Article 39 (3) TRIPs.

45. Some developing countries forcefully argued that the system of administrative control of the food and drugs industry practised in most Western countries led to the accumulation of a wealth of data concerning technical procedures to manufacture new drugs or concerning the effects of drugs or agrochemicals on the health of the consumers or the environment; therefore, the developed countries' administrations should put this confidential information to the disposal of countries of the South.

46. The idea was appealing at first glance. The United States and Sweden, to name the pioneers in that area, have passed the Freedom of Information Act and similar legislation in order to assure a continuous flow of information from the government to the citizens, as a means of heightening the legality and objectivity of the decisions of the Administration, but also to avoid that knowledge precious to Society be buried for ever in the drawers of the public offices.

47. Significantly, exceptions were made under the Freedom of Information Act to protect trade secrets. Therefore, the Western governments had an easy day to refute the demands of South countries. It is obvious that the Administration cannot give access to confidential

information for any other use than helping to protect the public health. Furthermore, the usual channels for transfer of technology North-South go through arrangements between private corporations of the developed countries and South partners, be they private or State companies. To create an obligation by food and drugs administrations freely to divulge the information in their possession would lead to the disruption of the transfer of technology process, and maybe to the disruption of control schemes in North countries. Finally, from the point of view of industrialists, the whole scheme intimated the idea of nationalization of their trade secrets without compensation.

48. Article 39 (3) TRIPs has reached a compromise solution. It protects only the information given by private industry in order to get the official approval for the marketing of products which utilize new chemical entities. It protects only compilations of data which have requested a considerable effort (a test conspicuously absent of the general definition of confidential information). Moreover, the legal protection is subject to two exceptions :

a. where necessary to protect the public, protection shall lapse entirely, and disclosure can be made without restriction by the Administration of one country. This exception is unobjectionable. To issue warnings that a given chemical or pharmaceutical may have adverse effects on the consumer's health belongs to the functions of a modern State, and the health of the people has a higher ethical value than the profits of the industrialists.

b. No disclosure by an Administration is otherwise acceptable, unless precise measures shall ensure that no unfair commercial use of those data shall be possible. The distinction between fair and unfair use refers to honest commercial practices.

The test of commercial use is simple to apply. What is not clear is the nature of the "steps" necessary in order to avoid such unfair commercial use. It may only mean that communiqués and press releases shall be carefully scrutinized, so that no trade secrets be leaked in any usable form; in other words, imprecision and censorship shall ensure that the Administrations do not divulge confidential information contrary to Article 39 (3) TRIPs.

After all, this regime is not without merit. It constitutes an acknowledgement that, in a figurative way, the public Administration is not the owner of the confidential information necessary to control the marketing of drugs and agrochemicals, but only the trustee of that information, the public being the ultimate beneficiaries, but only for very limited purposes.

49. In this respect however, the "public" should also be understood as the whole mankind. Even if the information disclosed to a State agency is of material relevance only to the citizens of another country, Article 39 (3) TRIPs should not prevent that Administration to issue a warning

and give medical details to the attention of the world - rather than to keep under the cloak of secrecy some information that is not relevant for its own citizens.

Conclusion

Article 39 TRIPs reunites American definitions of trade secrets and the European concepts of unfair competition and honest commercial practices. It is the first multilateral provision on confidential information, and it is a good starting point for case law in countries where the legal protection of trade secrets is not yet firmly established.

NOTES

- ¹ ABBOTT, p. 739.
- ² COTTIER, p. 408; TANKOANO, p. 37.
- ³ E.C. Draft Text, Art. 28; Switzerland Draft Text, Art. 241 (1); U.S. Draft Text, Art. 31 (1).
- ⁴ "(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.
- (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.
- (3) The following in particular shall be prohibited :
1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
 2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
 3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods."
- ⁵ Communication from India, MTN.GNG/NG11/W/37, July 10, 1989, p. 18; see other documents (Notes by the GATT Secretariat), cited in ROSS/ WASSERMANN, p. 63, fn. 429-431.
- ⁶ Which might have been due to a "drafting error"; see GADBAW/RICHARDS, p. 60.
- ⁷ See SELL, pp. 331-332.
- ⁸ As reflected in GADBAW/RICHARDS, p. 60, in a study on some important countries (Mexico, Brazil, Argentina, India, Taiwan, Singapore and South Korea).
- ⁹ See for the Commonwealth countries TURNER; for U.S. law, see MILGRIM, generally : A. WISE, Trade secrets and Know-how Throughout the World (New York, suppl.)
- ¹⁰ This influence is mentioned by NACHANE, p. 262. According to this writer's practice, trade secrets are common in all areas of industry and commerce, for example oil brokerage, petrochemical technology, cosmetics, building materials, mechanical engineering, shipbuilding, software, etc.
- ¹¹ See SELL, p. 346, fn. 89, citing SHERWOOD R.M., New Theory of Conductivity in Licensing, (LES Nouvelles, 1989) p. 187; REICHMANN, p. 379, citing another article by SHERWOOD R.M., A

Microeconomic View of Intellectual Property Protection in Brazilian Development, in RUSHING/BROWN, eds, *Intellectual Property Rights in Science, Technology and Economic Performance* (1990), pp. 116 et seq.; NACHANE, p. 262 (in general).

- ¹² Possibly more important for facilitating trade secret licensing would be the general recognition of the licensor's law as applicable by default, when the parties have not chosen the law applicable to their relationship, as well as the general recourse to international commercial arbitration entirely independent from local courts even in those countries, as India, where it is still regarded with less than a full sympathetic understanding; Secrecy in arbitration is also essential; see DESSEMONTET, *Transfer of Technology under UNCTAD and EEC Draft Codifications*; DESSEMONTET, *Arbitrage et Confidentialité*, pp. 25-27 and 29 ss; in this last regard, Australian and American jurisdictions might still improve their respect of confidentiality.
- ¹³ *Lear v. Adkins*, 395 U.S. 653 (1969); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).
- ¹⁴ See DESSEMONTET, *The Legal Protection of Know-how in the U.S.A.*, pp. 65-67.
- ¹⁵ See FISCH/SPEYER, p. 69.
- ¹⁶ See REICHMANN, pp. 378-379.
- ¹⁷ NACHANE, p. 260.
- ¹⁸ 15 USC § 1125 (b).
- ¹⁹ See the English precedent *Yovatt v. Winyard*, 1 J and W 394 (1820).
- ²⁰ BUCHER/TSCHANZ, pp. 65 and 87.
- ²¹ See KOSTECKI, p. 11.
- ²² *Carpenter v. United States*, 484 U.S. 19 (1987) at 26 (confidential information is « properly » the deprivation of which can constitute wire fraud); *Osborn v. Boeing Airplane Co.*, 135 USPQ 145 (9th Cir. 1962), 147-148; *Matarese v. Moore-McCormack Lines, Inc.*, 71 USPQ 311 (2nd Cir. 1946), 312. See also DESSEMONTET, *Les opérations d'initiés et le droit civil*, p. 153.
- ²³ See Art. 4 Swiss Act against Unfair Competition of 1986.
- ²⁴ See e.g. *Chiarella v. United States*, 445 U.S. 222 (1980); *Dirks v. SEC*, 463 U.S. 646 (1983); *Moss v. Morgan Stanley, Inc.*, 719 F.2d 5 (2nd Cir. 1983); *SEC v. Materia*, 745 F.2d 197 (2d Cir. 1984), cert. denied 471 US 1053 (1985). The U.S. Supreme Court divided evenly on the validity of a conviction based on the misappropriation theory in *Carpenter v. United States*, 484 U.S. 24 (1987). The misappropriation theory has been embraced by the Second, Seventh and Ninth Federal Circuits,

but rejected in the Fourth (see *United States v. Elton E. Bryan*, Docket No 94-5124, decision of June 27, 1995).

²⁵ See 14 Uniform Laws Annotated 438 (1985) (?).

²⁶ *AP v. Int'l News Service*, affd 248 U.S. 215.

²⁷ Art. 241 (1) Switzerland Draft Text.

²⁸ See SELL, p. 323.

²⁹ To distinguish between the "objective" and the "subjective" aspects of secrecy is rather a leaning of the German commentary; See DESSEMONTET, *The Legal Protection of Know-How*, pp. 107 et seq.

³⁰ See TROLLER, p. 155-156 et KRASSER, p. 33.

³¹ See for example New Jersey Statutes Annotated § 2A . 119.5.3.

³² See ABBOTT, p. 713 fn 76; CERVIÑO/PRADA, p. 121.

³³ See cases and references cited by MILGRIM, §2.09 [5], fn. 230.

³⁴ See e.g. *Swiss Review of Intellectual Property* 1989, at 271.

³⁵ See WENIGER, p. 159.

³⁶ ATF 71 IV 217 (under Article 273 of the Penal Code of Switzerland against economic espionage).

³⁷ "The term "secret" means that the know-how package as a body or in the precise configuration and assembly of its components is not generally known or easily accessible, so that part of its value consists in the lead-time the licensee gains when it is communicated to him; it is not limited to the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the licensor's business".

³⁸ Under U.S. law, the majority view is that it is not possible to protect a technical trade secret that has been disclosed by the claims or the description of a U.S. patent. See DESSEMONTET, *The Legal Protection of know-how*, at 157 et seq., esp. 161.

³⁹ Identical in this regard to Art. 1 (7) of the E.C. Regulation No 556/89.

⁴⁰ WENIGER, pp. 159-163. See however Article 2 (3) of Taiwan's Trade Secrets Law of January 17, 1996, requiring « proper measure to protect confidentiality » of the trade secrets.

⁴¹ See 11 *Arbitration International* (1995) 231-340.

⁴² BODENHAUSEN, at 144.

⁴³ *Gates Rubber Co. v. Bando Chemical Industries Ltd.*, 798 F. Supp. 1499 (D. Colo. 1992).

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- ⁴⁴ Strong words used by the English Judge Bennet *in* *United Indigo Chemical Co. v. Robinson*, (1932) 49 R.P.C. at 178. It will be noted that the Taiwan Trade Secrets Law of January 17, 1996 is the first legislative endeavour to regulate the rights to trade secrets « created or developed by an employee in the discharge of [his] duties », or « by a person commissioned to research or develop such secret » (Art. 3 and 4).
- ⁴⁵ In a French insider case, a newspaperman incidentally overheard the important news of a prospective merger between two companies while waiting for an interview with the CEO of one of them. See *Saint-Guilhem*, (Paris, Trib. Grande instance, 12 May 1976), reported in JCP 1977 II 12351.

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