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THE PROTECTION OF TRADE SECRETS IN INTERNATIONAL COMMERCIAL TRANSACTIONS

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ABSTRACT

Protecting intellectual property rights is the goal of the TRIPs Agreement. "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. The entirety of the TRIPs Agreement, in a sense, relates to confidential information that is shielded by copyrights, patents, or designs and models. However, only information that is considered "proprietary information" and not otherwise covered by patents, copyrights, designs, or models is covered by Article 39 TRIPs. Traditionally, "trade secrets" have been used to refer to this kind of information; the phrasing of Article 39 TRIPs should not take away from this understanding of the subject.

INTRODUCTION

Trade secrets are a legally nebulous idea. They are widely acknowledged as belonging to a class of commercially sensitive confidential information. A trade secret needs to be more than just an objective, purpose, or potential. A trade secret, however, may be a unique method of accomplishing a task or objective. Information must be of sufficient commercial importance to the confider for it to be considered a trade secret, meaning that revealing it to a rival could seriously hurt the confider. Although a wide range of information is protected under the law of breach of confidence, including government secrets, trade secrets, and personal confidences, trade secrets are especially valuable to enterprises due to their commercial nature. Two of the most well-known instances of trade secrets are probably the formula for Coca-Cola and the combination of eleven spices and herbs used in Kentucky Fried Chicken. A company's customer list is the traditional illustration of a trade secret in legal jurisprudence. Nonetheless, courts have determined that a variety of items can be protected as trade secrets, including pricing strategies, industrial manufacturing processes, data pertaining to the production, analysis, formulation, quality control, distribution, and sales of pharmaceuticals, supply chain models, software source code, and food

preparation recipes. Trade secrets are, in fact, a very broad idea that might theoretically include any type of information. Systems for protecting trade secrets frequently fill in the "gaps" left by other types of intellectual property protection. For instance, in most jurisdictions, customer lists that include raw data are unlikely to be covered by copyright. Even though they can be patentable, industrial manufacturing methods can be challenging to enforce under the patent system, especially if a competitor's procedures are hidden from the public or cannot be inferred from their final goods. Furthermore, preserving the trust in such systems can grant a company a longer exclusive period than the 20-year monopoly granted under the patent regime. Trade secret protection may also be used to enhance other types of intellectual property in certain situations. For instance, if a former employee copies proprietary software owned by the company, it may be considered a breach of confidence if the source code is confidential as well as an infringement on the copyright in the source code. In reality, the majority of companies use a combination of trade secrets and other types of intellectual property protection to safeguard their intangible assets.

Protection of Trade Secrets in Australia

Australia does not have a legislative framework in place to safeguard trade secrets. Rather, the equitable doctrine of breach of confidence safeguards trade secrets. In order to succeed in an action for breach of confidence under Australian law, a plaintiff must show:[1]

1. That the information in question can be identified with specificity;
2. That the information has the necessary quality of confidentiality (and is not, for example, common or public knowledge, or properly considered the 'know-how' of an employee);
3. The information was received by the defendant in such circumstances as to import an obligation of confidence;
4. There has been an actual or threatened misuse of the information; and
5. That the misuse resulted (or will result) in the plaintiff suffering damage.

Regarding the third component, if the recipient knew or a reasonable person in the recipient's position would have known that the information was received in confidence, then there will be a duty of confidence. Information that was gained covertly or incidentally that is, when the recipient knew or should have known that they shouldn't have had the information at all is also covered by this requirement. The specific conditions that impose a duty of confidence are a matter of fact that must be evaluated case by case. Authorities in Australia have acknowledged a concept referred to

[1] *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Dept of Community Services and Health* (1990) 95 ALR 87 at 102; *Optus Networks Pty Ltd v Telstra Corporation Ltd* (2010) 265 ALR 281

as the "springboard doctrine." That is, a person who has received information in confidence is not allowed to use it as a 'springboard' to gain a competitive advantage over the person who provided the information, or to put themselves in a position more favourable than would have been achieved from the use of publically available information and the recipient's own independent skill and ingenuity.[2] Remarkably, even in the event that the recipient does not employ a private solution directly, a breach of trust will still occur if the recipient's ability to launch its own solution faster was made possible by learning about the confidential solution. The springboard theory, which emphasises the value of putting in place independent design processes and "clean room" development settings, comes up regularly in the context of product development.

Know-How vs Trade Secrets

A key distinction exists between trade secrets of a previous employer and "know-how" that an employee of the business has gained and is entitled to utilise for professional progress even after leaving the company. The former is not protectable in a breach of confidence case, whereas the latter is. The contrast highlights the conflict between the public interest in free and open competition and enabling employees to use their learnt skills and knowledge, and the preservation of intellectual property rights (in this example, an employer's secret information). Courts have recognised that it can be difficult to distinguish between trade secrets and know-how. A trade secret is information that may be part of an employee's knowledge base but that "a person of ordinary honesty and intelligence would recognise was the property of their old employer." This is the somewhat circular test used to distinguish between the two.

Knowing the difference between trade secrets and know-how may be made easier by the following factors:

- Knowledge acquired and committed to memory by an employee during regular work hours is more likely to be regarded as know-how;
- On the other hand, data included in a written document that the former employee brings with them to their new job is more likely to be protected as trade secret;
- Conversely, know-how is more likely to be information that a worker has honestly learnt during their career;

[2] See *Dart Industries Inc v David Bryar & Associates Pty Ltd* (1997) 38 IPR 389 at 408-409; *Sports Data Pty Ltd v Prozone Sports Australia* (2014) 316 ALR 475 at [126]; *RLA Polymers Pty Ltd v Nexus Adhesives Pty Ltd* (2011) 280 ALR 125 at [70] to [75]

- A trade secret is more likely to be formed from information that is difficult, intricate, or required a lot of time and effort to independently ascertain;

Although businesses have a legitimate interest in limiting the use of know-how passed on to their former employees, Australian courts have determined that contractual restraint of trade provisions which are subject to temporal and geographic limitations are a better way to protect this interest than the law of breach of confidence. A plaintiff seeking damages or, in the event that the case for breach of confidence is successful, an account of profits and injunctive remedy, such as orders limiting the defendant's use of private information, are entitled to. Final injunctive relief is often granted by Australian courts to litigants who have successfully argued their case. In contrast to other jurisdictions, a plaintiff does not need to meet any extra requirements in order to be granted this type of remedy, such as proving that the sought injunction would not negatively impact the public interest or have any unjustified anti-competitive implications. Contractual safeguards for trade secrets include confidentiality clauses in non-disclosure, collaboration, and employment agreements, among other clauses. When this happens, in addition to any underlying action for breach of confidence in equity, the person who disclosed the trade secrets will also have a claim for breach of contract. Most Australian jurisdictions do not provide an express limitation term for breaches of confidence because they are equitable causes of action. In actuality, though, courts may employ the statute of limitations for a comparable cause of action, such as the six-year statute of limitations for tort or contract breach claims.

Protection of Trade Secrets in the United Kingdom

The equitable doctrine of breach of confidence, which is generally in line with the Australian legal system previously discussed, and the Trade Secrets Regulations, which brought the EU Trade Secrets Directive to the UK in 2018, are the two parallel systems that protect trade secrets in the UK. The common law of breach of confidence in the UK and the Trade Secrets Regulations overlap significantly. Nonetheless, the Trade Secrets Regulations clearly provide that a trade secret owner may depend on additional safeguards when they are provided by UK law. Trade secrets are infringed upon by unlawful acquisition, use, or disclosure, according to the Trade Secrets Regulations. It is important to remember that any one of the three activities by itself has the potential to result in an infringement. As a result, even if trade secrets were obtained legally, an infringement may still happen if their use or disclosure in the future will be illegal. In the event that the Trade Secrets Regulations are violated, the court may award monetary damages in addition to any other customary remedies available to a UK court. Interim and final measures are also

mentioned directly in the Trade Secrets Regulations.

Orders for interim measures comprise:

- The temporary halt to the use or disclosure of the trade secret, or if applicable the outright restriction of doing so;
- Prohibiting the manufacture, distribution, sale, or use of counterfeit goods, as well as their importation, exportation, or storage for those purposes; and
- The removal or seizure of suspected counterfeit goods, particularly those that are imported, in order to stop them from reaching or being used on the market.

Infringing goods are defined by the Trade Secrets Regulations as goods whose design, operation, manufacturing method, marketing, or feature primarily derives from a trade secret that was obtained, utilised, or revealed illegally. Ex parte hearings may be used to request interim measures, but in England and Wales, they are only allowed in very specific circumstances for example, when there is a genuine fear that the infringer may try to destroy evidence. Orders for final actions include:

- The trade secret will no longer be used or disclosed, or, if applicable, will be prohibited;
- The outlawing of the manufacture, distribution, use, and sale of counterfeit goods, as well as the importing, exporting, and storing of counterfeit goods for such uses;
- Taking corrective action against goods that violate intellectual property rights, such as: (i) recalling the infringing goods from the market; (ii) depriving the infringing goods of their infringing quality; and (iii) destroying the infringing goods or withdrawing them from the market, as long as doing so does not jeopardise the protection of the relevant trade secret; and
- The total or partial destruction of any document, object, material, substance, or electronic file that contains or incorporates the trade secret, or, if applicable, the total or partial surrender of such document, object, material, substance, or electronic file to the applicant.

Under the Trade Secrets Regulations, an aggrieved party may also be entitled to monetary compensation if the infringement knew or should have known that the acquisition, use, or disclosure of a trade secret was being done illegally. The amount of money awarded will be commensurate with the real harm caused by the unauthorised acquisition, use, or disclosure of the trade secret. The court will take into account elements other than economic factors, such as the moral prejudice inflicted on the trade secret holder by the unlawful acquisition, use, or disclosure

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of the trade secret, as well as the negative economic consequences, including any lost profits suffered by the trade secret holder and any unfair profits made by the infringer. Any monetary award, nevertheless, must be greater than what would have been paid in royalties or other fees if the violator had been granted permission to utilise the infringing trade secret. In England, the Trade Secrets Regulations impose a 6-year statute of limitations; however, an equitable breach of confidence case is not subject to this limitation.

Protection of Trade Secrets in the U.S.

Up until recently, state courts applied state law to offer trade secret protection in the United States. Nevertheless, the Defend Trade Secrets Act of 2016 (DTSA), which was passed by the federal government of the United States in May 2016, provides businesses with a federal avenue to pursue damages for the misuse of trade secrets. Under the DTSA, a "trade secret" means "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing."[3] It is crucial to remember that just because knowledge fits neatly into one of the listed categories or kinds of trade secrets, it does not automatically qualify for trade secret protection. A customer list with easily recognisable names and addresses, for instance, "will not be protected as a trade secret." Additionally, businesses must "derive independent economic value, actual or potential, from the information not generally known to another person who can obtain economic value from the disclosure or use of the information." This implies that a client list that is sufficiently "secret," but does not have sufficient value to warrant protection as a trade secret. "Reasonable measures to keep such information secret" are also required of the owner of the trade secret. Because gaining financial advantage from a trade secret occasionally necessitates selective disclosure of that trade secret, determining what constitutes a reasonable precaution involves striking a fine balance between the costs and the advantages. According to the explanation in Rockwell Graphic, which addressed part drawings used in the production of replacement parts: On the one hand, the trade secret owner proves that the secret has actual value deserving of legal protection, that he was harmed by the misappropriation, and that there was misappropriation by spending more money to keep the secret from leaking out. However, his costs increase with his expenditures. Both direct and indirect costs are possible. It will be increasingly

[3] 18 U.S.C § 1839(3). The DTSA sought consistency with the Uniform Trade Secrets Act ("UTSA") — the model law on which most states structure their trade secret misappropriation statutes

difficult for Rockwell's engineers and vendors to complete the tasks required of them the more access to its designs is restricted. Let's say Rockwell prohibits the duplication of its designs. A group of engineers would therefore have to collaborate on a single drawing, maybe by handing it back and forth or by gathered together in the same room. Such reconfigurations of patterns of work and production are far from costless; and therefore, perfect security is not optimum security.[4] Companies are accountable for monitoring the use and disclosure of their trade secrets after weighing the relevant considerations and determining whether information should be considered confidential. Two definitions of "misappropriation" of a trade secret are provided by the DTSA. The "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means" is the first definition of misappropriation. Second, misappropriation can also refer to the following situations in which someone disclosed or exploited a trade secret without permission:

- Used improper means to acquire knowledge of the trade secret;
- Knew or had reason to know at the time of disclosure or use that the trade secret was acquired by improper means; or
- Knew or had reason to know before a material change in position that the trade secret is a trade secret and was acquired by accident or mistake.[43]

Under the DTSA, a trade secret owner may file a civil lawsuit in federal district court against anyone they believe is misappropriating their trade secret in order to safeguard it. However, the DTSA establishes a statute of limitations that forbids recovery for misappropriation later than “3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered,” so trade secret owners must be prompt and diligent in filing a complaint in order to have a chance at a suitable remedy. The DTSA provides three specific avenues for recovery if a business establishes that it is the owner of a trade secret and believes that the trade secret has been misappropriated within the statute of limitations period. Initially, either the trade secret owner or the Attorney General may petition the court for injunctive relief. Second, "property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the civil action" may be seized civilly under the DTSA. The foundation of the civil seizure remedy is the idea that "if such seizure is not ordered, an immediate and irreparable injury will occur and the harm to the applicant of having the application denied outweighs the harm to the person against whom seizure would be ordered if the application is granted and substantially outweighs the harm to any third parties

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[4] *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179–80 (7th Cir. 1991)

who may be harmed by such seizure." Finally, financial remedies that have historically been sought to protect intellectual property rights, such as patent rights in patent litigation, are made available by the DTSA. In addition to potential unjust enrichment and actual loss, a damages award may also include fair royalties in lieu of further monetary damages. In exceptional cases where there is deliberate and malicious misappropriation of a trade secret, exemplary damages may be awarded by a court, with the maximum amount being twice the number of damages granted for actual loss, unjust enrichment, or per fair royalty.