



Trade Secrets

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A. Trade Secrets

Trade Secret

- Very common form of protecting the intangible assets of a company
- The study “Economic Impact of Trade Secret Theft: A framework for companies to safeguard trade secrets and mitigate potential threats” estimates that the theft of trade secrets costs to the 40 strongest economies of the world between 1% and 3% of their GDP every year.



Emerging Importance of trade secret

Increase of cases of cybercrime

- Need of stronger protection of TS

Open innovation

- This new way of making innovation stimulates cooperation between companies, and so sharing information

Globalization of trade

- Need of protection of intangible assets in different countries

Notion

- An information that you do not want the competition to know about
- Different terminologies: trade secrets, know-how, undisclosed information
- What does it include?
 - technical know-how (designs, formulas and other technical knowledge which results from experience and intellectual talent)
 - data of commercial value (marketing plans, customers lists and other business-related information that provides an advantage over competitors, etc.)
 - test and other data submitted for the approval of pharmaceutical and chemical products for agriculture.

Article 39.1 TRIPS Agreement

- In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.

Article 39.2 TRIPS Agreement

- 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 (10) 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.

Definitions of trade secret at national level (1/3)

■ **Sweden:** Section 1 trade secret law:

“For the purpose of this Act a trade secret means such information¹⁹ on business relations or operating conditions of a business in somebody’s business which is kept secret and of which the disclosure is aimed at causing damage to the business proprietor from a competition point of view”

Definitions of trade secret at national level (2/3)

■ **Czech Republic:** Section 17 Trade Code

“... A trade secret comprises all facts of commercial, manufacturing or technical nature related to an enterprise that have actual or at least potential material or immaterial value, are not commonly available in the relevant business circles, should be maintained in secrecy on basis of the trader’s decision and the trader ensures their secrecy adequately”

Definitions of trade secret at national level (3/3)

■ **United States:** Uniform Trade Secrets Act

“Trade secret means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”

Protection of undisclosed information in the Andean Community

- Articles 260-265 of the Decision No. 486 of 2000 of the Andean Community
- Located in Chapter II, Title XVI on Unfair Competition in connection with Intellectual Property
- The expression «Business secrets» is used

Protection of undisclosed information in the Andean Community (cont)

- **Art. 260.** Any undisclosed information that a natural person or legal entity legitimately holds, that may be used in any productive, industrial or commercial activity and is capable of being passed on to a third party shall be considered a business secret in so far as the said information is:
 - (a) secret, in the sense that, as a whole or in the precise configuration and combination of its elements, it is not generally known or readily accessible to those who move in the circles that usually handle the information concerned;
 - (b) of commercial value due to its secrecy; and
 - (c) made the subject of reasonable measures on the part of its legitimate holder with the view to keeping it secret.

Protection of undisclosed information in the Andean Community (cont)

- **Art. 260** (cont) (...) The information constituting a business secret may relate to the nature, characteristics or purpose of goods, to production methods or processes or to means or methods of distributing or marketing goods or rendering services.
- **Art. 261.** For the purposes of this Decision, that information shall not be considered a business secret that has to be disclosed by virtue of a legal provision or by court order. Information that is supplied to any authority by a person holding it shall not be regarded as being in the public domain or disclosed by virtue of a legal provision where the person supplies it with a view to obtaining licenses, permits, authorizations, registrations or any other official enactments.

Differences between trade secret and patents



Patents

- Limited use
- Register
- Limited period of protection
- Exclusivity
- disclosure



Trade Secrets

- Wide use
- No need of registration
- Period of protection: until the information is kept secret
- No guarantee of exclusivity
- No disclosure

Protection strategies: patent or trade secret?

- Different factors influence this decision:
 - Country
 - Sector of activity
 - Degree of complexity of the invention
 - Degree of codification
 - Infra-organizations trust
 - Level of risk that the company is willing to assume
 - Size of the company
 - Importance of the innovation

Combined use of methods of protection

- Before the trade secret, after the patent
 - The invention can be kept secret until the publication of the patent application
- A part of the technology secret, another part patented
 - In most cases, for the same innovation some parts are protected through a patent, while others are kept secret

Example of combined use of patent and trade secret: C&F

- C&F: manufacturer of meat products
- After several years of research: developed a process to produce and freeze pre-cooked toppings sausages
- Patent on the machine and the process to produce the sausages + trade secret on the improvement of the process



C&F vs. Pizza Hut (1/2)

- 1985: Pizza Hut signs an agreement for the purchase of a large quantity of precooked sausages from C&F
- C&F:
 - On the basis of a confidentiality agreement, discloses the process to some of Pizza Hut's suppliers
 - Makes a 4.5 million US\$ investment to meet Pizza Hut's needs



C&F vs. Pizza Hut (2/2)

- Pizza Hut's suppliers learn how to make the precooked sausages
- Pizza Hut informs C&F that it won't buy anymore its products unless C&F reduce drastically the price
- 1989: Pizza Hut buys the precooked sausages from another supplier, IBT, who hired a former C&F supervisor
- 1991: C&S sues Pizza Hut and IBT for patent infringement and trade secret theft
- Illinois Court:
 - Patents invalid
 - C&F: valuable and enforceable trade secret
 - Awards to C&F 10.9 million US\$ damage*

Challenges to trade secret protection*

■ At company's level

- ICT Developments
- business transactions
- Employee mobility

■ At legislative level

- Inadequate civil or criminal remedies to deter infringers
- Inadequate injunctive relief, or unavailable ex parte orders
- Failure to protect confidentiality of trade secrets during legal proceedings
- Inadequate enforcement
- No mechanisms for procedural cooperation

B. Recent legislative developments of trade secret protection

The Trans Pacific Partnership Agreement

- Adoption of the **Trans Pacific Partnership Agreement (TPP)**.
- a trade agreement among twelve Pacific Rim countries signed on 4 February 2016
- TPP Parties have:
 - to provide for the legal means to prevent misappropriation of trade secrets, including misappropriation conducted by State-owned enterprises;
 - to establish criminal procedures and penalties for trade secret theft, including by means of cyber-theft.



The Defend Trade Secret Act of the United States

- USA: trade secrets are generally protected under State law which varies from state to state
- Many states have a trade secret law, while some states rely solely on common law principles
- Uniform Trade Secrets Act of 1979 (as revised in 1985): aims to harmonize state laws. Contains:
 - Definition of TS misappropriation
 - Remedies for TS misappropriation:
 - Injunctive relief
 - Damages
 - Attorney's fees (in some instances)



The Defend Trade Secret Act of the United States (cont)

- 2016: Adoption of the Defend Trade Secret Act
- Creates a private cause of action in federal courts for trade secret owners to sue misappropriators
- Scope: misappropriation of a “trade secret related to a product or service used in, or intended to be used in, interstate or foreign commerce”
- Court: power to issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of trade secret

The Directive on Trade Secret in the European Union

- Before 2016: each Member State had its own trade secret legislation → differences among national laws
- On 27 May 2016 the Council approved the Commission's proposal on the Directive on trade secrets
- The Directive is therefore adopted. It will now be signed by representatives of both institutions preceding its publication in the Official Journal.
- Upon publication, EU countries have to two years to implement the Directive into their national legislation.

The EU Directive on Trade Secrets (cont)

- Scope: laying down rules on the protection against the unlawful acquisition, use and disclosure of trade secret
- Definitions
 - Trade secret
 - Trade secret holder
 - Infringer
 - Infringing goods
- Provides for common measures, procedure and remedies necessary to ensure the availability of civil redress against the unlawful acquisition, use and disclosure of trade secrets



C. Protection of test data

Article 39.3 TRIPS Agreement

- 3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

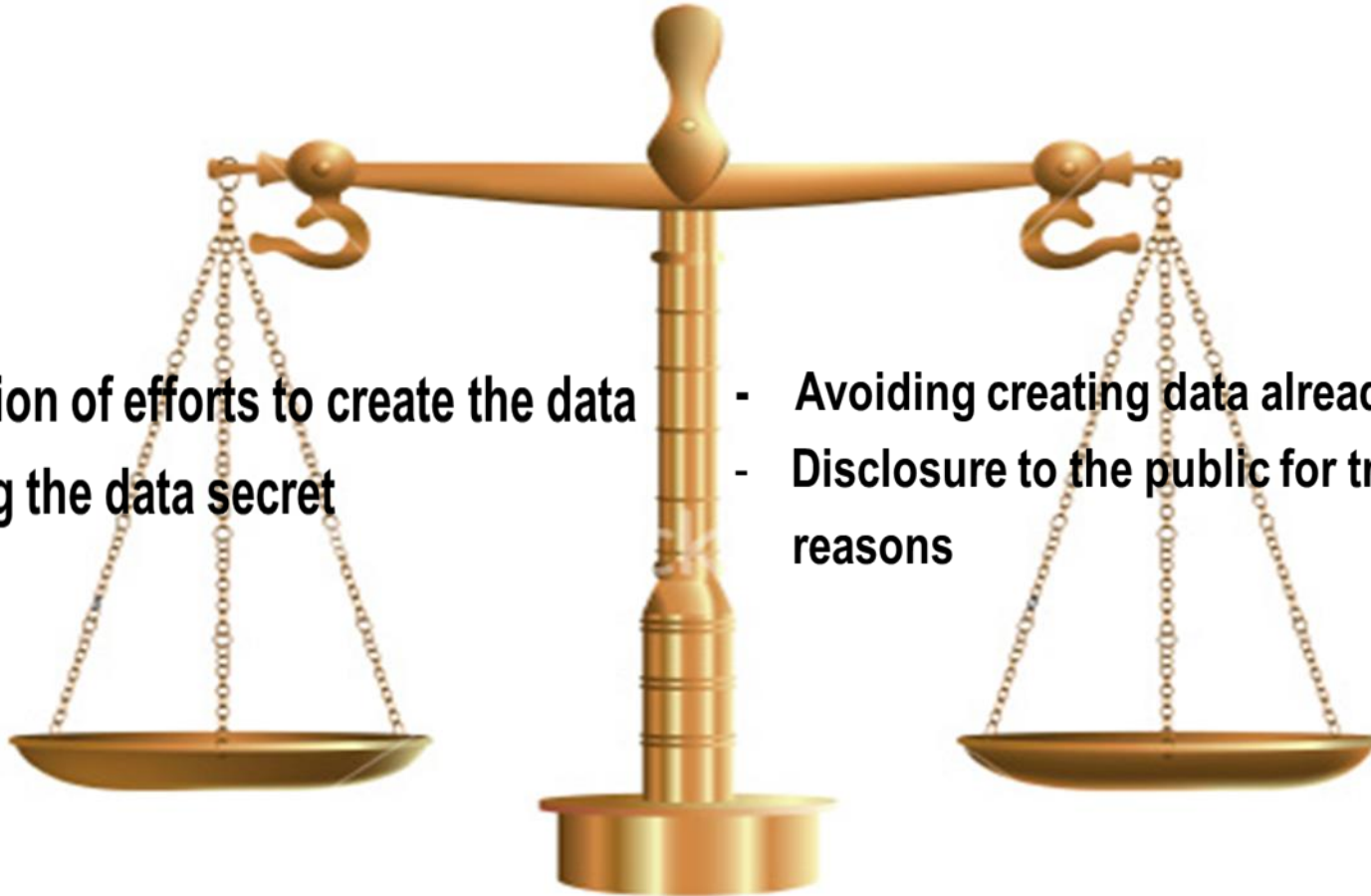
Principal aspects of data protection in the TRIPS Agreement

- Open provision of law → negotiation history
- Located in Section 7, Part I, of the TRIPS, dedicated to undisclosed information
- Principal aspects:
 - undisclosed data
 - considerable effort
 - pharmaceutical or agrochemical products
 - need to obtain a marketing approval
 - new chemical entities
 - protection against disclosure and unfair commercial use
 - no explicitly mentioned an exclusive right over these data

Balance of different interests

- Protection of efforts to create the data
- Keeping the data secret

- Avoiding creating data already existing
- Disclosure to the public for transparency reasons



Options to protect test data

- National Authorities can:
- Request the second applicant to deposit their own test data, or obtain an authorization from the originator of the data;
- Allow the second applicant to use the test data of the originator upon payment of a compensation to the test data holder;
- Do the technical examination of second applicants on the basis of the test data of the originator. In this case National Authorities can rely directly on the data of the originator;
- Authorize the commercialization of the product of the second applicant without examination or without relying on the test data of the originator

Options to protect test data (cont)

- N.B. : whatever option is chosen:
 - Test data must be kept secret
 - The second applicant has to prove that the second product is similar or essentially similar to the original one.

Thank you for your attention

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