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Inadequate international protection for trade secrets requires vigilance

Sitting by West Lake, after a light shower, as I watch the mist cross the water, I understand why the Song dynasty poet Su Dongpo found it “always, alluring.” Although the sky is gray, unlike Beijing, rainstorms, not pollution, give the sky its color in Hangzhou.

Pollution control remains a divisive topic in China, as in the rest of the world. We may be shivering from the polar vortex, but the large cities in China are suffering from a pollution vortex that threatens to last far longer than Chicago's unseasonal weather.

While scientists and engineers struggle to create greener energy sources, lawyers and policymakers are rewriting intellectual property laws to support such innovations. As I mentioned in my column in January, trade secret law ignited as a new “hot topic” in international law. Even the United States is exploring revisions to its current protection levels.

Increasingly, innovators are turning to trade secrets as the “patent alternative” for protecting energy and other innovations. Trade secret protection is perceived as both less costly and more inclusive than patents. It avoids the costs and delays associated with patent applications.

Trade secrets can also protect commercially valuable innovations that fail to meet a patent's high inventiveness requirements. Unfortunately, trade secret law has not kept pace internationally.

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) establishes the international substantive standards for patent protection in eight articles. These articles, among other items, define patentable subject matter (Article 27), delimit the patent holder's rights over his invention (Article 28), set the disclosure obligations that lay at the heart of patent protection (Article 29), detail the circumstances for the compulsory licensing of patented inventions (Article 31) and set a 20-year term for patent protection (Article 33).

By contrast, trade secret protec-

tion is governed by only one article — Article 39. Article 39 does not “define” trade secrets per se. Instead, it requires protection for “undisclosed information” that meets a three-part test.

This three-part test requires that protected information be “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.”

It must have “commercial value because it is secret.” Finally, it must have been subject to “reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”

This broad definition allows for wide flexibility in the types of information protectable under international trade secret regimes. Thanks to TRIPS, most countries protect both business confidential and technical information. However, some countries provide less protection for confidential information. Thus, in France, only “manufacturing secrets” are subject to specific criminal penalties for their unauthorized revelation or attempted revelation (Article 621-1 French IP Code).

Unlike its robust coverage of patents, TRIPS does not address such critical issues under trade secrets as their lawful acquisition by reverse engineering. It does not even resolve the fundamental dispute over whether trade secret protection is based on the defense of property rights or on unfair competition principles.

Despite such slight treatment, studies indicate an increasing reliance by companies on trade secrets, as opposed to patents, to protect their new inventions. Such reliance may be misplaced where an innovation is readily discoverable once a product becomes publicly available. Despite TRIPS' silence, most countries readily recognize the right to use a trade secret discovered through observation or reverse engineering.

Problematically, substantial differences internationally in the

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ability to protect a trade secret against unauthorized use or disclosure remain. In a January 2014 report, the Organization for Economic Cooperation and Development underscored that “differences are particularly pronounced in evidence gathering and discovery, protection of trade secrets during litigation, technology transfer requirements and the effectiveness of legal systems with respect to enforcement.”

Distinctions begin at the earliest stage where countries, such as Russia, impose strict audit obligations including keeping detailed lists of the trade secrets employers seek to protect. Even if a company provides sufficient proof of a protectable secret, evidentiary and discovery distinctions make relief uncertain in many cases.

The United States generally provides broad pretrial discovery rights with appropriate protective orders, in camera hearings and other techniques to protect the secrecy of the disputed trade secret. By contrast, in China, discovery is relatively limited. Only documentary evidence of misappropriation is allowed, making proof obligations among the most difficult internationally.

Even if adequate evidentiary proof of the trade secret violation exists, bringing suit may result in the widespread disclosure of the

secret. Countries such as the United States, India and Japan provide protective orders to prevent such unwanted disclosures. By contrast, others, including Australia, Brazil, China and France, do not limit the defendant's access.

Fortunately, efforts are underway to improve some of these problems. One of the most notable efforts is the current European Union Draft Directive on the Protection of Trade Secrets. If enacted, it would fill a gaping hole in trade secret protection finally establishing harmonized enforcement obligations for trade secrets throughout the European Union.

Under the Draft Directive, enforcement obligations would include protective orders, in camera hearings, sealed records and pretrial discovery. (Article 8)

Interim relief in the form of injunctions, including prohibitions “to produce, offer, place on the market or use infringing goods or import, export or store infringing goods for those purposes” must be available (Article 9).

Seizure of suspected goods, “including imported goods” is similarly required “so as to prevent their entry into or circulation within the market” (Article 9).

Damages would include money damages that “take into account all appropriate factors, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the trade secret holder by the unlawful acquisition, use or disclosure of the trade secret” (Article 13).

While waiting for trade secret protection to improve, there are several steps companies can take to improve their chances of successfully protecting their rights internationally. Non-disclosure agreements that describe the relevant trade secrets, combined with exit interviews, constant employee training and data vigilance remain the cornerstones of an effective trade secret program around the globe.