WIPO Summer School
Protecting Trade Secrets Globally

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Outline of Presentation

• The International System
• Why and how differences in protection matter to businesses
• Balancing Defendants’ Rights
Part 1: The International System
Objectives

You should know:

• National obligations under treaty
• Trends in protection and levels of protection around world
• Important differences among how effectively countries protect trade secrets
TRIPS Article 39

Article 39
1. . . . Members shall protect undisclosed information in accordance with paragraph 2 . . . .

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.
TRIPS Obligations

• Protect trade secrets

• Trade secrets =
  – Secrets (not generally known or readily accessible)
  – Commercially valuable because secret
  – Owner takes reasonable measures

• Protected from disclosure or use without consent contrary to “honest commercial practices”
TRIPS Obligations

- Contrary to “honest commercial practices” is at least:
  - breach of contract
  - breach of confidence
  - inducement to breach
  - acquisition knowing one of the above happened

- So, breach of **duty**

- Do competitors owe a duty to keep secrets?
  - Probably not
  - So, economic espionage not covered
Measuring Trade Secret Protection Worldwide:

Trade Secrets Protection Index

- Originally created for the OECD with co-author Douglas Lippoldt
- Scores countries’ strength of trade secret protection on a scale of 1 - 5
- Thirty-seven countries (so far)
- 1985 – 2010, five year intervals
- Recently updated for 2015 – 2016 but not fully incorporated
- An analytical tool, not normative
Trade Secrets Protection Index

• Covers dozens of questions
• Aggregated into five equally-weighted components:
  1. Definition of trade secrets & coverage
  2. Duties and misappropriation
  3. Remedies and restrictions on liability
  4. Enforcement, investigation & discovery
  5. System functioning and related regulation
Trade Secrets Protection Index, By Country and Component, 2010

Figure 1. Trade Secrets Protection Index, By Country and Component, 2010
TSPI Scores, 2010 Selected Countries

United States, Canada, Japan, Ireland, Germany, France, Sweden, Malaysia, India, China, Indonesia, Russia

> Overall Average <
Evolution of TSPI over time 1985 – 2010, OECD and BRICS Countries
Important Differences Globally

• Lowest scoring countries (e.g., China and Russia): Stringent proof requirements that render enforceability very difficult

• Higher scoring countries
  – Criminal protection
  – Breach of duty only OR breach of duty AND misappropriation
  – Investigation and discovery procedures
  – Protection of confidentiality during litigation
Why differences among countries can affect business decisions
Objectives

You should be able to describe:

• What questions businesses ask about trade secret protection
• Why businesses are sensitive to the answers
• The nature of each major issue
  – Speed of remedies
  – Access to evidence
  – Security during litigation
• The role of criminal penalties
4 Key Questions Before Investing or Litigating Across Borders

(1) Is trade secret protection defined “normally”?
   - Extra requirements?
   - Do unrelated third parties have duties?

(2) Can I get a preliminary injunction quickly?

(3) Can I investigate my claim effectively?
   - Via civil discovery?
   - Via the criminal justice system?
     - Receptivity of authorities to criminal claims

(4) Can I protect my secrets from further exposure during litigation?
Why are businesses sensitive to strength of protection?

• Trade secrets are fragile
• They must be defined and established in court
• They can be hidden
  – Defendant often has the evidence
  – Defendant can hide the evidence
• Filing suit could make everything worse
Consequences: Sensitivity to strength of protection

- Enforceability tends to be an “all-or-nothing” proposition
- Prompt injunctive relief is essential
- Access to proof matters more than in most cases
- Trade Secret owners will forego claims if they aren’t confident that litigation won’t expose *more* secrets
Need for quick remedies

• Injunctive relief

• Plaintiffs need quick recourse to the courts for either or both of two reasons
  – The danger of public exposure
  – The danger of defendant hiding theft

• Ex parte is preferred due to the need for speed and surprise
Getting the evidence

- What options are there under different legal systems?
- Preliminary actions to preserve proof – e.g. Anton Piller Orders
- Pre-trial disclosure or discovery
- Leveraging criminal law or evidence from actions in other countries
Security of Secrets During Litigation: Avoiding the Awful Choice

Allow one unscrupulous competitor to steal a trade secret and get away with using it in confidence?

**OR, Litigate, and**

**TELL THE WORLD!**
Security Concerns Undermine Faith in the System

European Commission Study, 2013:

• 45% of respondents had refrained from pursuing a trade secret claim

• 30.2% reported as a reason that “initiating legal action would bring the case to public attention;”

• 15.9% reported as a reason “lack of trust of the judicial system of the relevant Member State;” and

• 14.3% reported “fear of losing [the trade secret] in court proceedings.”
The Role of Criminal Law
• Access to proof
  – In each case
  – Within the national legal system
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• Trade off between greater access to proof in civil statute and demand for criminal remedies
• Concerns about evidentiary remedies need to be balanced with costs of increased use of criminal provisions
• The appropriate role for criminal remedies in TS:
  – Laws and prosecutorial guidelines should consider the need for access to proof
Balancing Defendants’ Rights
Objectives

You should know:

• The other side of the story: employee and competitor rights
• Why trade secrets need to be balanced
Trade Secret Laws Aren’t Just a Shield

• Can impede employee mobility
• Can be used to harass or impair competitors
• Can be used to *steal* trade secrets
Trade Secret Laws Aren’t Just a Shield

- Example: The Anton Piller Order
- This preliminary search to preserve proof has spread across the world
- Its originator, Sir Hugh Laddie, called it his Frankenstein Monster
- Courts in the UK, Australia, Canada and elsewhere have all created extensive protections to reign it in
WIPO Summer School
Trade Secrets: Commercial Best Practices

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Outline of Presentation

• The Legal Framework: What the law demands of trade secret owners
• Working with employees
• Working with third parties
• General business practices
The Legal Framework: What the law demands of trade secret owners
What the Law Demands

• Trade secret owners cannot be passive and expect courts and governments to “rescue” them
  – As both a practical and legal matter

• TRIPS Article 39(a): Member states shall provide protection to undisclosed information if, among other things, it:

• has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.
What is reasonable?

• Some relevant considerations:
  – We don’t want to encourage trade secret owners to waste money on excessive, unneeded security
  – We don’t want competitors to waste money on trying to circumvent measures
  – Failure *is* an option
  – We want to encourage openness
    • Trade secrets aren’t the same as secrets!
Trade Secrets Should not be Absolute Secrets
What is reasonable?

• First proposition:
  – Some security is required

• Second Proposition:
  – Security should not cost more than the trade secret is worth

• Third Proposition:
  – We should consider just how effective any additional expenditure would have been
What is reasonable?

- $C = \text{cost of the security measure}$
- $P_1 = \text{probability of theft without the security measure}$
- $P_2 = \text{probability of theft with the security measure}$
- $V = \text{value of the trade secret}$
- $C < P_2 - P_1 \times V$
Now, on to the practical suggestions

• But before I go there, I need to acknowledge my debt to the Center for Responsible Enterprise and Trade as an excellent resource

• CREATE.org, the best source for best business practices for protecting trade secrets
Working With Employees
The Departing Employee Problem

• Empirical research shows that most trade secret cases involve former employees

• General Principles:
  – Impose obligations in contracts
  – Make employees aware of obligations
  – Maintain awareness
  – Limit access and disclosure
  – Monitor employee activity
  – Have exit procedures
Best Practices With Employees: Impose Obligations in Writing

• Impose obligations in employment contracts
  – Evidence of reasonable efforts
  – Necessary in some countries
  – First step in creating actual awareness

• Impose obligations with specificity
  – General duties aren’t sufficient

• Have clear, written policies, periodically communicated to employees
Best Practices With Employees: Make employees aware of obligations

• Proper “onboarding”
  – Background checks in hiring
  – Explain obligations while recruiting and certainly when training
  – Explain importance of agreement, not just another signature in a stack of paper

• Ongoing training
  – Reinforce importance
  – Train for new information / new roles
Best Practices With Employees: Limit access and disclosure

• Create Barriers
  – Physical
  – Electronic
• Disclose on a need to know basis
  – Segregate access physically and electronically
  – Watch out for “all access” non-technical employees
• Monitor access and usage
• Assess threat from “bring your own device” policies and users
Best Practices With Employees: Exit Procedures

• Exit Interviews
  – Reminders
    • Obligations
    • What specifically was a trade secret
  – Find out where they are going

• File and device management
  – Check recent usage
  – Secure return of devices
  – Remove access
Working with Third Parties
Third Parties

• Business partners, investors, suppliers, vendors, contractors, and even customers all require consideration

• General Principles:
  – Identify third parties
  – Impose obligations in contracts or limit access
  – Work with third parties to ensure they are following the same best practices you are
Third Parties: Identify Third Parties

• Some situations are easy to anticipate but some slip through
  – Independent contractors and temporary workers
  – Repair companies and outside technicians
  – Waste disposal

• Include and train own employees regarding access limitations and need for agreements

• Anticipate problem areas and plan for them
  – The unwilling investor
  – The salesperson who does not want to lose a sale
Third Parties: Impose Obligations or Limit Access

• Impose obligations
  – Same or similar to employees
  – “Push down” obligations
  – Ability to monitor

• Limit Access
  – Have and enforce policies, plans and procedures regarding third party access, physical or electronic
Third Parties: Work with Third Parties

- Explain, train, and build capacity
Business Practices
Business Practices

• Inventory trade secrets
• Determine how well they are protected
• Assign responsibility to a team
• Monitor constantly
• Fix and improve