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# International Transfer of Trade Secrets: Traps and Promises

*Jacques de Werra\**

## I. Introduction

In an era where access to and control of information are of key importance, it is essential to know how information can be legally protected against its misuse by unauthorized third parties<sup>1</sup>. This is consequently not surprising that the protection of trade secrets (which constitute confidential information<sup>2</sup>) has come to the forefront of the political agenda in many parts of the world, including in the United States of America, which has launched a strategy for “mitigating the theft of U.S. trade secrets”<sup>3</sup> and which has also improved its regulatory frame-

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1 This paper is published in a collective book edited par Prof. Pierre-Emmanuel Moyse in the book series “Concurrence et innovation” (éditions Thémis, Faculté de droit, Université de Montréal); this paper will not address the topic of data privacy as such, even if it is obviously also of high importance for private individuals and for companies in today’s interconnected world, as evidenced by the recent scandal about the U.S. National Security Agency data online surveillance program (Prism program), see CHARLES ARTHUR, “NSA scandal: what data is being monitored and how does it work?”, *The Guardian*, June 7, 2013, available at: <http://www.guardian.co.uk/world/2013/jun/07/nsa-prism-records-surveillance-questions> (all the websites have been last accessed on August 30, 2013); it will not address either the broader issue of the international transfer of technology as such, which is and remains politically disputed.

2 For a definition at the international level, see below II.A.

3 See the paper released on February 20, 2013, “Administration Strategy on Mitigating the Theft of U.S. Trade Secrets”, available at: <http://www.whitehouse.gov/blog/2013/02/20/launch-administration-s-strategy-mitigate-theft-us-trade-secrets>.

work<sup>4</sup>, as well as in the European Union which has recently launched a consultation for the purpose of assessing the need to strengthen the legal protection of trade secrets<sup>5</sup>. Trade secrets have further kept busy state courts<sup>6</sup> and arbitration tribunals<sup>7</sup>. These cases illustrate the multiple and complex facets of the protection of trade secrets and their relevance in many (if not all) business activities, including the financial<sup>8</sup> and pharmaceutical industries<sup>9</sup>, while illustrating that threats do not only come from private companies but can also come from disclosure of

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- 4 *I.e.* the Theft of Trade Secrets Clarification Act of 2012 and the Foreign and Economic Espionage Penalty Enhancement Act of 2012.
  - 5 See [http://ec.europa.eu/internal\\_market/iprenforcement/trade\\_secrets/index\\_en.htm](http://ec.europa.eu/internal_market/iprenforcement/trade_secrets/index_en.htm) (the deadline for responses was March 8, 2013; the next steps of the process will be known in the near future).
  - 6 See in particular the recent decision of the Supreme Court of England and Wales of May 22, 2013 *Vestergaard Frandsen A/S* (now called *MVF 3 ApS*) and others v *Bestnet Europe Limited* [2013] UKSC 31, available at: [http://www.supremecourt.gov.uk/decided-cases/docs/UKSC\\_2011\\_0144\\_Judgment.pdf](http://www.supremecourt.gov.uk/decided-cases/docs/UKSC_2011_0144_Judgment.pdf); for a comment, see *World IP Review*, May 25, 2013, available at: <http://www.worldipreview.com/news/uk-supreme-court-delivers-rare-trade-secret-ruling>.
  - 7 See the arbitral award of November 18, 2011, under the American Arbitration Association (AAA) awarding Seagate Technology compensatory damages in the amount of \$525 million against its competitor Western Digital Corp. and against a Seagate former employee for misappropriation of trade secrets, see: <http://www.zdnet.com/blog/btl/seagate-wins-525-million-from-western-digital/63981>; the award was subsequently reversed by a judgment of October 12, 2012 of the District Court of Hennepin County, Minnesota: see CHRIS MELLOR, “WD escapes \$630m hit over Seagate ‘trade secrets’ ... for now anyway”, *the Register*, October 16, 2012, available at: [http://www.theregister.co.uk/2012/10/16/wd\\_off\\_arbitration\\_hook/](http://www.theregister.co.uk/2012/10/16/wd_off_arbitration_hook/).
  - 8 *U.S. v. Aleynikov*, 676 F.3d 71 (2d Cir. 2012) dealing with the misappropriation of software code relating to a high frequency trading software program – this case led to an amendment of the US legislation (EEA); see ROBERT DAMION JURRENS, “Fool Me Once: *U.S. v. Aleynikov* and the Theft of Trade Secrets Clarification Act of 2012”, *Berkeley Technology Law Journal*, Vol. 28, July 2013 p. 833, available at: [http://btjl.org/data/articles/28\\_AR/0833-0858\\_Jurrens\\_091113\\_Web.pdf](http://btjl.org/data/articles/28_AR/0833-0858_Jurrens_091113_Web.pdf).
  - 9 See the recent orders of the President of the General Court of the European Court of Justice of April 29, 2013, which granted interim measures in favour of *AbbVie* and *InterMune* against the European Medicines Agency (EMA) for the purpose of preventing the EMA from disclosing to third parties certain clinical data that these companies had filed relating to already authorised medicinal products (respectively *Humira* (INN *adalimumab*) and *Esbriet* (INN *pirfenidone*)) before the companies’ respective challenges to the EMA’s proposed actions had been fully examined by the Court; Order of the President of the General Court of 25 April 2013 –

trade secrets by governmental bodies<sup>10</sup>. These recent events confirm (if need be) the vital importance of trade secrets in today's knowledge economy.

It is also important to note from the outset that the protection of trade secrets does not only affect major multinational corporations, but also – and perhaps even more – smaller business entities (which may rely on trade secrets instead of pursuing a patent filing strategy for financial reasons)<sup>11</sup>. As a result, trade secrets are also of major relevance for smaller business enterprises (SME)<sup>12</sup>.

The globalization of business markets and the mobility of human capital necessarily imply that trade secrets circulate intensively across national borders. Such international transfer of trade secrets creates risks which results from multiple factors, and specifically from the differences in the regulatory environment in the relevant States<sup>13</sup>. On the other hand, the international transfer of trade secrets can be promoted as a result of certain regulatory measures which can be adopted at the international or at the national levels.

On this basis, the goal of this paper is first to identify from a global perspective certain factors which facilitate the international transfer of trade

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InterMune UK and Others v EMA (Case T-73/13 R) and Order of the President of the General Court of 29 April 2013 – AbbVie v EMA (Case T-44/13 R).

- 10 As reflected by the Abbvie and InterMune cases cited in the previous note in which the risk resulted from an undue disclosure of trade secrets (*i.e.* clinical data) by the EMA to third parties.
- 11 As evidenced by the Vestergaard Frandsen case (see note 6 above) which related to a very specific industry (*i.e.* insecticidal bednets, with the purpose of preventing the sleeper from being bitten by mosquitos); see the report of WIPO in assessing the use of the IP system by SMEs, "Intellectual Property Rights and innovation in Small and Medium Sized Enterprises" (WIPO), available at: [http://www.wipo.int/export/sites/www/sme/en/documents/pdf/iprs\\_innovation.pdf](http://www.wipo.int/export/sites/www/sme/en/documents/pdf/iprs_innovation.pdf).
- 12 Which is confirmed by the activities developed by the WIPO SME Division in these fields, see [http://www.wipo.int/sme/en/ip\\_business/trade\\_secrets/trade\\_secrets.htm](http://www.wipo.int/sme/en/ip_business/trade_secrets/trade_secrets.htm) and [http://www.wipo.int/sme/en/documents/wipo\\_magazine/05\\_2002.pdf](http://www.wipo.int/sme/en/documents/wipo_magazine/05_2002.pdf).
- 13 On this issue (with a Euro-Asian focus), see JACQUES DE WERRA, "What Legal Framework for Promoting the Cross-Border Flow of Intellectual Assets (Trade Secrets and Music)? A View from Europe Towards Asia (China and Japan)", *Intellectual Property Quarterly* 2009, Issue 1, p. 27, available at: <http://ssrn.com/abstract=2149758> (certain developments made in this paper are taken from this previous paper).

secrets, and thus to discuss about the promises (see below II). It is also to analyse the difficulties which may negatively affect the international transfer of trade secrets, which implies to identify the traps that should be avoided (see below III)<sup>14</sup>.

## **II. The Promises**

The international transfer of trade secrets is facilitated by the existence of an international regulatory framework with an almost global reach which grants a minimum level of protection to trade secrets (see below A). It can also be supported by the adoption of innovative mechanisms at the national level which can ensure an efficient protection against the foreign misappropriation of trade secrets (see below B).

### **A. Trade secrets are protected at the global level**

The TRIPS Agreement, which entered into force on April 1, 1995<sup>15</sup>, contains for the first time in an international convention a provision which specifically addresses the protection of trade secrets. Art. 39 TRIPS indeed provides – under the neutral title “protection of undisclosed information” – that:

“1. In the course of ensuring effective protection against unfair competition as provided in Art. 10<sup>bis</sup> 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.

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)<sup>16</sup> so long as such information:

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14 This chapter does not claim to address all the relevant difficulties.

15 Agreement on Trade-related Aspects of Intellectual Property Rights, Annex 1C to the Agreement establishing the World Trade Organization.

16 Footnote 10 provides “[f]or 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

- (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.

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”.

In view of the global reach of the WTO law<sup>17</sup>, this provision has almost a universal application and therefore ensures a minimum level of protection of trade secrets at the international level. It should however be noted that WTO members have very recently agreed (*i.e.* on June 11, 2013) to extend until July 1, 2021 the deadline for least developed countries to comply with the minimum standard of protection of intellectual property rights under the TRIPS agreement. This means that the relevant countries (*i.e.* the least developed countries)<sup>18</sup> are not required to protect confidential information under Art. 39 TRIPS until that date or until they are not considered anymore as least developed countries<sup>19</sup>.

In spite of the promises that Art. 39 TRIPS contains for the protection of trade secrets at the global level, it must be noted that the wording of

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of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition”.

17 The WTO has 159 Member States as of today.

18 The WTO recognizes as least-developed countries (LDCs) those countries which have been designated as such by the United Nations, see [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org7\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org7_e.htm).

19 See the decision of the WTO Council of June 11, 2013 (available at: [http://www.wto.org/english/news\\_e/news13\\_e/trip\\_11jun13\\_e.htm#decision](http://www.wto.org/english/news_e/news13_e/trip_11jun13_e.htm#decision)): “1. Least developed country Members shall not be required to apply the provisions of the Agreement, other than Articles 3, 4 and 5, until 1 July 2021, or until such a date on which they cease to be a least developed country Member, whichever date is earlier”.

Art. 39 TRIPS is the result of an international consensus which means that it leaves a considerable freedom of implementation to the Member States of the WTO<sup>20</sup> with respect to both the substantive protection that it shall grant as well as to the enforcement of such protection. This freedom and the uncertainty which results from it are not surprising to the extent that the core of the protection of trade secrets remains anchored in unfair behaviours which are obviously difficult to categorize and to define in a legal provision. This is reflected in the very wording of Art. 39 TRIPS which refers to the general standard of “honest commercial practices” and illustrates the types of relevant behaviours in footnote 10 in a *non exhaustive* manner. The complexity of the protection results from the difficulty to define precisely the object of protection given that there is no property right as such on trade secrets (under Art. 39 TRIPS)<sup>21</sup>. This legal uncertainty further applies with respect to the scope of protection of the so-called “test data” provided under Art. 39 para. 3 TRIPS<sup>22</sup>.

Such uncertainty also exists with respect to the issue of enforcement. While the enforcement of the protection resulting from Art. 39 TRIPS is governed by the chapter of the TRIPS relating to the enforcement of intellectual property rights (art. 41 seq. TRIPS), it remains uncertain what remedies shall be available, and specifically whether an injunctive relief can be granted in case of an undue disclosure of a confidential information. In such a case indeed, the relevant information would not be protectable anymore because it would not be secret (so that one of the condition of protection under Art. 39 TRIPS would be missing). In addition, by contrast to wilful copyright and trademark infringement activities (Art. 61 TRIPS), no criminal sanctions are imposed by the TRIPS

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20 For this purpose, see the analysis of this provision made in the TRIPS commentaries of DANIEL GERVAIS, *The TRIPS agreement: drafting history and analysis*, 4<sup>th</sup> ed. (2012), at 2.349, and of CARLOS M. CORREA, *Trade related aspects of intellectual property rights : a commentary on the TRIPS Agreement* (2007), p. 369 seq.

21 For a discussion, see CHARLES TAIT GRAVES, “Trade Secrets As Property: Theory and Consequences”, 15 *J. Intell. Prop. L.* 39 (2007).

22 One question relates to the meaning of the terms “unfair commercial use” against which the test data are supposed to be protected; for a discussion, see INGO MEITINGER, “Implementation of Test Data Protection According to Art. 39.3 TRIPS, The Search for a Fair Interpretation of the Term ‘Unfair Commercial Use’”, *Journal of World Intellectual Property*, vol. 8 No. 2 (2005), p. 123 seq., at 127.

for acts of violation of the protection of undisclosed information under Art. 39 TRIPS (even if this can be introduced by the Member States).

Art. 39 TRIPS thus creates a - most welcome - international framework which ensures a minimal level protection of trade secrets at the international level<sup>23</sup>. But, national legislative and judicial authorities still enjoy a relatively broad freedom in the way how such protection shall be implemented at the local level<sup>24</sup>.

## **B. Innovative strategies for protecting trade secrets at the national level**

Given that Art. 39 TRIPS (unfortunately) does not create a totally uniform protection of trade secrets at the global level, it can still be challenging to enforce the protection of trade secrets before foreign courts (or other foreign decision making bodies) in case of a misappropriation of trade secrets committed in certain foreign countries. In view of this situation, innovative strategies have been developed to enforce the protection against acts of misappropriation of trade secrets committed in *foreign* countries before *local* authorities (*i.e.* before authorities in the country in which the victim is based). One strategy is to block the import of products which have been manufactured abroad on the basis of misappropriated trade secrets. This is precisely what has been done in the USA as a result of an interesting case relating to proceedings initiated before the International Trade Commission (ITC)<sup>25</sup>.

In this case, a US company in the railway industry (Amsted Industries Inc.) filed a complaint with the ITC based on the alleged misappropriation of its trade secrets by a Chinese competitor (TianRiu). Amsted is a manufacturer of cast steel railway wheels which has developed secret processes for manufacturing such wheels. It has licensed out one of these processes to several firms with foundries in China, including to

23 Except for the least developing countries which are not bound by the TRIPS obligation until 2021 (as discussed above).

24 See INGO MEITINGER, "Die globale Rahmenordnung für den Schutz von Geschäftsgeheimnissen im TRIPS-Abkommen der WTO und ihre Auswirkungen auf die Rechtslage in der Schweiz", *sic!* 3/2002 (Swiss Intellectual Property, Information and Competition Law Review), p. 145 seq., at 158.

25 It being noted that the ITC has recently emerged as an attractive forum for litigating various types of intellectual property disputes (particularly patent disputes).



Datong ABC Casting Company Limited. TianRiu had tried to obtain a license from Amsted but these negotiations failed. Subsequently TianRiu hired nine employees of Datong who were bound by confidentiality obligations not to disclose the relevant manufacturing secrets. Amsted therefore alleged before the ITC that these former Datong employees disclosed confidential information and document to TianRiu and thus misappropriated Amsted's trade secrets.

The power of the ITC to decide this type of disputes results from Section 337 of the US Tariff Act<sup>26</sup>. Sec. 337(a)(1)(A) specifically grants to the ITC the power to sanction “[u]nfair methods of competition and unfair acts in the importation of articles [...], the threat or effect of which is (i) to destroy or substantially injure an industry in the United States; [...]”. It should be noted that the ITC has no power to grant damages, but can issue injunctions prohibiting the import of the relevant products on the US market.

One of the disputed and interesting features of the case was that the misappropriation of trade secrets did not take place in the US but occurred exclusively in China (which is where the confidential information was disclosed to TianRiu by former Datong employees). In a quite remarkable decision<sup>27</sup>, the Court of Appeal for the Federal Circuit confirmed on the basis of the statutory interpretation of the relevant provisions and powers of the ITC that it was proper for the ITC to find a Sec. 337 violation even if the misappropriation took place abroad, thereby reversing the “presumption against extraterritoriality”, *i.e.* against the application of local (US) law to foreign related acts. By doing so, the Court confirmed that the section 337 remedies are available for acts of trade secret misappropriation committed abroad. The Court emphasized in this respect that the power of the ITC relates to the import of infringing goods in the US and does not relate to conducts which would have no connection whatsoever with the US territory. Interestingly, the Court rejected the argument raised by TianRui according to which the application of US law regarding the concept of misappropriation of trade secrets would cause improper interference with Chinese law. The Court noted in this respect that there was no conflict between the principles of misappropriation applied by the ITC and Chinese trade secrets law and

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26 19 U.S.C. § 337.

27 *TianRui Group Co. v. International Trade Commission*, 661 F.3d 1322, 1337, 100 U.S.P.Q.2d 1401 (Fed. Cir. 2011) (J. Moore, dissenting).

referred in this context to Art. 39 TRIPS (in order to support its view that there are no differences between the respective standards of protection of trade secrets in the two countries).

The TianRui decision has led to the initiation of several other ITC proceedings relating to similar factual scenarios (*i.e.* cases of alleged misappropriation of trade secrets by Chinese companies hurting US companies) which have not been decided yet<sup>28</sup>. In spite of the legal issues that the TianRui decision has provoked<sup>29</sup>, it shows that creative local regulatory and litigation strategies can be envisioned in order to fight against cases of misappropriation of trade secrets committed abroad. Such strategies can contribute at least indirectly to the promotion of transfer of trade secrets to foreign markets, by giving to the owner of the relevant trade secrets certain legal means to at least block the import of products the manufacture of which would incorporate misappropriated trade secrets.

It results from this that the progressive international harmonisation of the protection of trade secrets which results from Art. 39 TRIPS<sup>30</sup> (in spite of the limits of this provision) as well as innovative local strategies which shall fight against foreign related unfair behaviours<sup>31</sup> can offer promising perspectives and create legitimate hopes for efficiently protecting against cases of misappropriation of trade secrets which are committed in foreign countries.

28 *Certain Robotic Toys and Components Thereof*, Inv. No. 337-2930 (filed January 2013) (investigation on-going); *Certain Shredders, Certain Processes for Manufacturing or Relating to Same*, Inv. No. 337-TA-863 (filed January 2013) (investigation ongoing); *Rubber Resins and Processes for Manufacturing Same*, Inv. No. 337-TA- 849 (June 2012) (pending investigation), *Electric Fireplaces, Components Thereof, Manuals for Same*, Inv. Nos. 337-TA-826/791 (2012/2011) (pending consolidated investigation); and *DC-DC Controllers and Produces Containing the Same*, Inv. No. 337-TA- 698 (January 2012) (enforcement proceeding); see MARK WINE, "Beyond TianRui v ITC: how far will the US courts go?", *World IP Review*, May 1, 2013, available at: <http://www.worldipreview.com/article/beyond-tianrui-v-itc-how-far-will-the-us-courts-go>.

29 For an analysis, see NATALIE FLECHSIG, "Trade Secret Enforcement after Tianrui: Fighting Misappropriation through the ITC", 28 *Berkeley Tech. L.J.* (July 2013) 449, available at: [http://btjl.org/data/articles/28\\_AR/0449-0482\\_Flechtsig\\_091113\\_Web.pdf](http://btjl.org/data/articles/28_AR/0449-0482_Flechtsig_091113_Web.pdf).

30 See A above.

31 See B above.

### III. The Traps

The intangible nature of trade secrets (which is perhaps the most intangible type of all intellectual property rights) sometimes make it difficult to enforce their protection in certain circumstances. Even if the protection of trade secrets does not depend on the taking of any formal official step by the holder of such secrets<sup>32</sup> so that the perception may arise that trade secrets would be easier to protect, their efficient protection unavoidably requires a very high level of diligence, which is sometimes neglected. Case law indeed teaches that many claims of alleged misappropriation of trade secrets fail because the claimant has not been sufficiently diligent in the first place in taking the required measures of protection. This is particularly true in international operations relating to transfer of trade secrets because of the differences and potential uncertainties in the application of the law in the relevant foreign countries.

Diligence is indeed expected both with respect to substantive law (see below A) as well as with respect to dispute resolution mechanisms (see below B).

#### A. Substantive law

A high degree of diligence must apply when trade secrets are transferred to a third party on the basis of a contract: an efficient protection of trade secrets consequently requires a high level of *contractual* diligence.

Case law first confirms the obvious risk of disclosure of trade secrets to potential licensees/business partners before a formal agreement has been entered into. If the negotiations subsequently fail, the party having – somehow irresponsibly – disclosed its trade secrets will have a hard time enforcing a claim of misappropriation of trade secrets: the courts will likely find that the disclosed information is not trade secrets because of the lack of measure of protection taken in order to keep it confidential (which is a standard condition of protection of trade secrets)<sup>33</sup>.

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32 By contrast to patent protection which obviously presupposes the filing of a patent application.

33 See *U.S. Plywood Corp. v. General Plywood Corp.*, 370 F.2d 500, 152 U.S.P.Q. 80 (6th Cir. 1966) (rejecting the claim because the claimant did not make “any effort at [...] securing an agreement for confidentiality”).

Along the same line, even if a formal agreement is entered into, its wording must be carefully drafted in order to avoid being faced with a scenario which is not covered by the relevant contractual provision. This particularly applies to non disclosure agreements (NDA) which are among the most basic and common types of business agreements but nevertheless and somehow paradoxically remain quite complex from a legal perspective. NDAs indeed call for a high level of attention from the contracting parties which are supposed to disclose their trade secrets to the other party under such contractual framework. Even if the issue may seem mundane, the parties should carefully identify all potential relevant activities that may relate to the disclosed confidential information. The contract should therefore make sure that the party to whom the confidential information is disclosed cannot *use* it itself and shall not only be prevented from *disclosing* it to a third party<sup>34</sup>.

A further area of concern (which is prone to litigation if not properly addressed by contract) relates to the post-contractual right of use of the trade secrets after the termination of the agreement under which the trade secrets have been transferred. Some courts have decided that the recipient may continue to use the relevant confidential information even after the termination of the agreement<sup>35</sup>, even if this may seem somehow counterintuitive because one could expect (or one may at least claim) that a contracting party should not as a matter of principle continue to benefit from the performance of the contract after its termination. Imprecise contractual drafting may also be damaging when the agreement focuses on the prohibition to use the trade secrets in case of early *termination* of the agreement, and does not prohibit the use in case of ordinary *expiration* of the agreement<sup>36</sup>.

34 This was not what was done in this clause “the obligation to maintain secrecy will remain in force for a period of five years if the intended talks fail to result in a co-operation development or agreement” contained in the Agreement concerning Secrecy and Know-How Protection, Dearborn Ind. Manufacturing Co. v. Soudronic Finanz AG, 1997 WL 156589, US Dist. Ct. N.D. Illinois (April 1, 1997).

35 See the decision of the England and Wales Court of Appeal in Regina Glass Fibre Ltd v Werner Schuller [1972] FSR 141: “[W]hen confidential information or know-how is given so as to enable a business to be established, it is given for all time. When the agreement comes to an end, there is no right to acquire further information, but the recipient can go on using that which he has already received. He is not bound to close down the business which he has built up by using it”.

36 “In the event of termination of this agreement other than set forth in [...], Industries [licensee] agrees that it will not, directly or indirectly, manufacture, use, sell

The lack of contractual solution may finally be problematic after the termination of joint research and development agreements in the course of which confidential information shall be jointly created. When parties cooperate together for the joint development of a technology (which is confidential information), courts can decide that the technology which has been created can be freely used by each of these parties after the termination of their cooperation<sup>37</sup>.

All these real life examples confirm that a successful voluntary based transfer of trade secrets presupposes a carefully drafted agreement. Even if this is obviously a key concern in all intellectual property related contracts (and more fundamentally in all contracts), this is of particular importance for trade secrets based contracts because it will be much more difficult or even be impossible to enforce the protection of trade secrets in case of inadequate contractual protection<sup>38</sup>.

## B. Dispute resolution mechanisms

Beyond these issues of substantive law (*i.e.* of contract law and of the law of trade secrets), due attention should also be paid to the efficiency of dispute resolution mechanisms that shall be adopted in order to solve disputes about international transfer of trade secrets agreements.

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or lease the Rotary Collator and the parts thereof and attachments thereto [...]” (Pitney-Bowes v. Mestre, 517 F. Supp. 52 (S.D. Fla. 1981), *aff’d*, 701 F.2d 1365 (11th Cir. 1983)); see also the clause in the dispute Faiveley Transport Malmo AB, v. WABTEC Corp. (559 F.3d 110, 2nd Cir. 2009) providing for the obligation to “cease manufacture of the License Projects subject only to the entitlement to finish and sell Products in manufacture before or at the end of the term of the Agreement and to carry out contracts of sale of products entered into by the licensee before such date”.

37 See para 3 a) aa) of the decision of the Swiss Supreme Court ref. 4C.163/2000 (available in the original German version on the website of the Swiss Supreme Court, <http://www.bger.ch>): “Haben die Parteien ein Erzeugnis in einer fortgesetzten Rechtsbeziehung entwickelt, bei der beide Partner die Anstrengungen zur Verbesserung vereinen, so wird dieses Arbeitsergebnis gemeinsames Gut, welches nach Beendigung der Zusammenarbeit mangels anderer Parteivereinbarung von beiden Parteien verwertet werden darf, sofern keine besonderen Umstände vorliegen”.

38 See the cases discussed in the text accompanying footnotes 32 to 36.

Alternative resolution methods, such as mediation<sup>39</sup> or arbitration, may in this respect be adequate for ensuring the confidentiality of both the dispute itself as well as – more importantly – of the relevant trade secrets.

The view has indeed been expressed that alternative dispute resolution methods (and particularly arbitration) should be used and encouraged given that they would provide “one neutral forum” and may avoid “the rendering of conflicting awards and judgments”<sup>40</sup>, provided that certain conditions are met<sup>41</sup>. On this basis, it appears important to address the issue of the resolution of trade secrets disputes by way of arbitration.

Some of the traditional advantages of arbitration over state courts litigation have a particular relevance for trade secrets disputes to the extent that arbitration proceedings are supposed to ensure a high level of confidentiality (which is obviously quite critical in trade secrets disputes) as well as a particular expertise of the arbitrators appointed for solving the dispute.

The submission to arbitration however raises the issue of arbitrability of trade secrets disputes. This implies to assess whether such disputes are arbitrable under the relevant law (which can be the law of the seat of the arbitration)<sup>42</sup>, whereby the solution can vary from one country to the other depending on the arbitration-friendliness of the relevant regulatory framework<sup>43</sup>. Because of its established expertise and reputation as

39 It being noted that mediation is now a “main stream” alternative dispute resolution method at least in Europe, as evidenced by the recent adoption of the Directive 2008/52/EC of the European Parliament and of the Council of 21 May 2008 on certain aspects of mediation in civil and commercial matters and that mediation is also viewed as an appropriate and useful method for solving intellectual property disputes, see DAVID W. PLANT, *We Must Talk Because We Can – Mediating International Intellectual Property Disputes*, ICC Publication, No. 695, Paris (2008).

40 See STANISLAS SOLTYSINSKI, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions”, 196 *Recueil des cours de la Haye* 226 (1986), at 355.

41 For a discussion of these conditions, see Soltysinski (*supra* note 40), at 355.

42 See Art. 176 and 177 Swiss Act on Private International Law for Switzerland (SAPIL).

43 The Supreme Court of Canada has recently confirmed that disputes about moral rights can be arbitrated by emphasizing that there are no grounds based on public policy which should prevent this (“[i]n interpreting and applying this concept

a seat for international commercial arbitration cases, it is not a surprise that Switzerland is an arbitration friendly country in which disputes about intellectual property rights are generally held as arbitrable under the applicable rules (such disputes are considered as a dispute about a financial interest under Art. 177 para. 1 SAPIL<sup>44</sup>).

The submission of a party to arbitration for a certain dispute further requires that such dispute shall fall within the scope of the arbitration clause. This requires that the trade secrets dispute, which can frequently be viewed as non-contractual disputes, shall fall within the scope of the arbitration clause which in turn supposes a sufficiently broad wording of the arbitration clause<sup>45</sup>. In order to ensure that trade secrets misap-

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[of public policy] in the realm of consensual arbitration, we must therefore have regard to the legislative policy that accepts this form of dispute resolution and even seeks to promote its expansion", *Desputeaux v. Éditions Chouette* (1987) inc., [2003] 1 S.C.R. 178, 2003 SCC 17.

- 44 On this issue, see ROBERT BRINER, "The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland" (Worldwide Forum on the Arbitration of Intellectual Property Disputes), WIPO (1994), available at: <http://www.wipo.int/amc/en/events/conferences/1994/briner.html>; see also FRANÇOIS PERRET, "L'arbitrabilité des litiges de propriété industrielle en droit comparé: Suisse/Allemagne/Italie", in: *Arbitrage et propriété intellectuelle/ colloque organisé par l'Institut de recherche en propriété intellectuelle Henri-Desbois*, p. 73 seq. (1994); for the US, see DAVID W. PLANT, "Arbitrability of intellectual property issues in the United States" (Worldwide Forum on the Arbitration of Intellectual Property Disputes, WIPO (1994), available at: <http://www.wipo.int/amc/en/events/conferences/1994/plant.html>).
- 45 By way of counterexample, it was held by the US Court of Appeal for the 9th Circuit in *Tracer Research Corp. v. National Environment Services Company* (42 F.3d 1292, 9th Cir. 2004) that the relevant arbitration clause (providing that "[i]n the event any controversy or claim arising out of this Agreement cannot be settled by the parties [ ], such controversy or claim shall be settled by arbitration") did not cover trade secrets disputes which were qualified as tort claims by the court and were thus held not subject to the arbitration clause ("The misappropriation of trade secrets count of Tracer's complaint is a tort claim. [...] The fact that the tort claim would not have arisen "but for" the parties' licensing agreement is not determinative. [ref. omitted]. If proven, defendants' continuing use of Tracer's trade secrets would constitute an independent wrong from any breach of the licensing and nondisclosure agreements. [ref. omitted] Statutory tort remedy does not affect contractual remedies, whether or not based on misappropriation of trade secrets. Therefore, it does not require interpretation of the contract and is not arbitrable under Mediterranean Enterprises. On remand, that claim should be tried in the district court"); for a discussion, see JACQUES DE WERRA, "Arbitrating International Intellectual Property Disputes: Time to Think Beyond the Issue of

propriation claims shall be arbitrable in a specific case, it can be recommended to use standard clauses provided for by recognized arbitration institutions, such as the WIPO arbitration and mediation Center<sup>46</sup>. In addition, it could be useful to specify that the jurisdiction of an arbitration panel does not prevent a party to request from a state court at the place where the damage occurs the issuing of preliminary injunctions against the persons/entities which are allegedly misappropriating the trade secrets at issue<sup>47</sup>. It is indeed essential for the victim of such misappropriation to have the right to obtain temporary injunctive relief in the jurisdiction(s) where the damage occurs or is likely to occur<sup>48</sup>.

Even if arbitration can be an attractive method for solving cross border trade secrets disputes by providing a neutral forum as well as offering increased confidentiality of the proceedings<sup>49</sup>, this dispute settlement method can still raise difficulties.

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(Non-)Arbitrability”, *International Business Law Journal*, 2012, Issue 3, p. 299, available at: <http://ssrn.com/abstract=2149762>.

- 46 See the WIPO standard arbitration clause (<http://www.wipo.int/amc/en/clauses/#4>): “Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. The arbitral tribunal shall consist of [three arbitrators][a sole arbitrator]. The place of arbitration shall be [specify place]. The language to be used in the arbitral proceedings shall be [specify language]. The dispute, controversy or claim shall be decided in accordance with the law of [specify jurisdiction]”.
- 47 This is clarified in the WIPO Arbitration Rules (<http://www.wipo.int/amc/en/arbitration/rules/>) as follows (Art. 46 d): “A request addressed by a party to a judicial authority for interim measures or for security for the claim or counterclaim, or for the implementation of any such measures or orders granted by the Tribunal, shall not be deemed incompatible with the Arbitration Agreement, or deemed to be a waiver of that Agreement”.
- 48 See with respect to China, e.g., FRED GREGURAS, “Intellectual property strategy and best practices for R&D services in China”, *Computer Law & Security Report* 2007, p. 449 seq., at 451, insisting on the fact that “the right to obtain injunctive relief for IP leakage needs to be expressly excluded from the obligation to arbitrate”.
- 49 See for instance PHILIP J. MCCONNAUGHAY, “ADR of Intellectual Property Disputes Conference”, available at: [http://www.softic.or.jp/symposium/open\\_materials/11th/en/PMcCon.pdf](http://www.softic.or.jp/symposium/open_materials/11th/en/PMcCon.pdf).



This can be illustrated by a relatively recent decision of the Swiss Supreme Court<sup>50</sup>. In this decision, the Court had to decide whether an arbitration clause contained in a “Secrecy Agreement” entered into between two companies (a Belgian company and a Swiss company) for the purpose of a common industrial research and development project which was entered into in 1989 for a one year period and which expired in 1994 covered the claims of allegedly abusive filing of patent applications (in various countries) which was made by the Swiss company in 1996 and 1997 and which were allegedly based on the confidential information disclosed under and covered by the Secrecy Agreement. The Belgian company had indeed initiated legal proceedings before Swiss state courts at the seat of the Swiss company (in Lucerne) and requested the assignment of the relevant patents and patent applications from the Swiss company.

The Swiss Supreme Court held that the arbitration clause<sup>51</sup> covered the dispute over the ownership of the disputed patent and patent applications because of the close relationship between the subject of the dispute and the Secrecy Agreement irrespective of the fact that the patent applications were filed several years after the expiration of the Secrecy Agreement. On this basis, the Swiss Supreme Court held that this dispute was to be solved by arbitration and not by Swiss state courts<sup>52</sup>.

This decision is quite interesting in the context of the international transfer of trade secrets given that it confirms that arbitration can (potentially) validly solve this type of disputes. It illustrates a typical scenario of potential disputes as well as the close interaction between trade secrets and patents. The misappropriation of trade secrets can frequently materialize in the filing of patent applications which allegedly incorpo-

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50 Decision of the Swiss Supreme Court ref. 4C.40/2003 (available in the original German version on the website of the Swiss Supreme Court, <http://www.bger.ch>).

51 The relevant part of the arbitration clause had the following wording: “the parties shall try in good faith to settle amicably any difference or dispute resulting from or with regard to this agreement. Should they not succeed, the matter shall be settled under the Rules of conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said rules”.

52 By applying Art. 7 of the SAPIL (which provides that if the parties have concluded an arbitration agreement concerning an arbitrable dispute, the Swiss court shall decline jurisdiction except in narrowly defined cases).

rate the misappropriated trade secrets<sup>53</sup>. This brings the difficulty that any ensuing disputes would not be limited to a trade secret misappropriation claim but would also integrate a patent law related claim which may raise the issue of arbitrability of the relevant patent dispute.

In view of the arbitration-friendly approach of certain national legal systems (such as Swiss law<sup>54</sup>), an arbitration panel seating in such countries (particularly Switzerland) could have the power to decide on the issue of the ownership of foreign patents. However, an arbitral award could still risk to face enforcement difficulties according to the local laws of the country where the patents have been registered/applied for on the ground that disputes about the ownership of patents would not be arbitrable in such jurisdiction for public policy reasons<sup>55</sup>. As a result, limits to the efficiency of arbitration as a global alternative dispute resolution method may result from the local rules governing the arbitrability of trade secret related disputes such as patent ownership disputes.

Similarly, should a trade secrets misappropriation claim arise in the context of a labor contract for which an arbitration clause would have been agreed upon in the employment agreement, the enforcement of an award could be threatened because other jurisdictions in which the enforcement of the award would be sought might prohibit the arbitrability of labor disputes or would submit such arbitration to specific rules. This could thus potentially prevent the enforcement of an arbitral award rendered by an arbitration panel located in an arbitration-friendly jurisdiction in a foreign country which would not, or which may be promoting

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53 There are many other cases which confirm the close and complex interaction between patent and trade secrets, see for instance the decision of the Swiss Supreme Court 4A\_616/2009, available on the website of the Swiss Supreme Court, <http://www.bger.ch>.

54 The US has also adopted an arbitration friendly approach to this issue as confirmed by the US Patent Act which confirms that patent related disputes are arbitrable (35 U.S.C. 294) as well as by case law (see – among others – the decision *INVISTA North America, S.a.r.l. v. Rhodia Polyamide Intermediates S.A.S.*, 503 F. Supp.2d 195 (D.D.C. Aug. 6, 2007); for a comment on this case, see “Inventorship Disputes Can Be Resolved Through Arbitration”, available at: [http://www.arb-forum.com/adr\\_CaseDetails.aspx?caseid=1157](http://www.arb-forum.com/adr_CaseDetails.aspx?caseid=1157).

55 On this issue, see STEFAN LINIGER, “Immaterialgüterrechtliche Streitigkeiten vor internationalen Schiedsgerichten mit Sitz in der Schweiz”, thesis (Berne 2002), at 114–115.

local arbitration institutions<sup>56</sup>, it being however noted that a growing number of countries are parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958 (“New York Convention”)<sup>57</sup> which defines and limits the grounds of non-enforceability of foreign arbitral awards<sup>58</sup>. Parties to an international contract providing for arbitration may further try to avoid arbitration before a foreign arbitration body by submitting the case to a local labor court and by claiming before such court that the (commercial) dispute should in reality be viewed as a labor dispute<sup>59</sup>.

Parties may also feel the need to adopt an *hybrid* dispute resolution system under which they would decide to split the jurisdictional powers between two or more decision-making bodies depending on the nature of the dispute at issue: this is frequently reflected in contractual dispute resolution clauses under which contractual disputes are to be referred to arbitration while intellectual property disputes must be submitted to state courts. While this may appear attractive at first sight, as experience – and litigation – show<sup>60</sup>, this system does not prove of any value

56 See CLARISSE VON WUNSCHHEIM & KUN FAN, “Arbitrating in China: the Rules of the Game, Practical Recommendations concerning Arbitration in China”, *Review of the Swiss Arbitration Association (ASA Bulletin)*, p. 35 seq., at 43 (2008), recommending, for arbitration in China, to “avoid choosing a foreign arbitration institution”, by referring to JINGZHOU TAO & CLARISSE VON WUNSCHHEIM, “Art. 16 and 18 of the PRC Arbitration Law: the Great Wall of China for Foreign Arbitration Institutions”, *Arbitration International*, Vol. 23, p. 309 seq. (2007).

57 See the countries listed at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/arbitration/NYConvention\\_status.html](http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html).

58 See in particular Art. V para. 2 (a) (non-arbitrable matter in the State where enforcement is sought) and (b) (*ordre public*).

59 This is what was done in the highly mediatized Danone-Wahaha joint venture dispute, in the course of which the lawyers of the Chinese partner (Mr. Zong) tried to avoid the arbitration in Stockholm by claiming that the alleged breach of non-compete and non-disclosure agreements by Mr. Zong fell under the scope of the Chinese labor law, since Mr. Zong was in an employment relationship with the Wahaha-Danone joint venture; see: <http://chinabusinesslaw.blogspot.com/2007/08/wahaha-v-danone-my-arbitration-is.html>; see also the article of STEVEN M. DICKINSON, “Danone v. Wahaha: Lessons for Joint Ventures in China”, available at: <http://www.chinalawblog.com/DanoneWahahaLessons.pdf>.

60 See the clause “a) Any dispute arising out of or relating to this License shall be finally settled by arbitration as set out herein, except that either party may bring any action, in a court of competent jurisdiction (which jurisdiction shall be exclusive), with respect to any dispute relating to such party’s Intellectual Property Rights or

if the respective powers of the dispute resolution bodies cannot be clearly distinguished.

These examples show that in addition to the assessment of the merits of the dispute (which can depend on the existence and/or wording of appropriate contractual clauses), parties should also pay careful attention to the ways how they want to solve their disputes in the context of an international transfer of trade secrets.

#### IV. Conclusion

Thanks to the WTO and specifically to the TRIPS agreement, the international protection of trade secrets has entered a new era under which there is for the first time an international definition of the conditions of protection of undisclosed information. In addition, recent regulatory and judicial developments at the regional and national levels have contributed and will continue to contribute to the clarification of the scope of protection of trade secrets. They confirm that the protection of trade secrets should not be viewed as a minor and neglected category of intellectual property right<sup>61</sup>. However, the promises of the TRIPS as well as of the other measures to improve the protection of trade secrets which are taken at the regional (such as the on-going EU project on the protection of trade secrets) or at the national level (such as the power of the

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with respect to Your compliance with the TCK license” in the dispute *Oracle America, Inc. v. Myriad Group AG*, in the course of which an injunction prohibiting the continuation of arbitration proceedings was issued by a judge in California (US Dist. Ct N. D. California), by a decision of Jan. 17, 2012 (available at: <http://docs.justia.com/cases/federal/district-courts/california/candce/4:2010cv05604/235529/69/0.pdf?1326881848>); this decision has however been reversed by the Court of Appeal for the 9th Circuit which held that that the arbitral tribunal had the power to decide on the scope of the arbitration clause and thus to decide whether it had the power and the mission to decide the dispute (decision of July 26, 2013, case no 11-17186 (available at: <http://law.justia.com/cases/federal/appellate-courts/ca9/11-17186/11-17186-2013-07-26.html>)).

- 61 Which is how trade secrets law is sometimes perceived in terms of legal scholarship: see SHARON K. SANDEEN, “The Cinderella of Intellectual Property Law: Trade Secrets”, in *2 Intellectual Property and Information Wealth: Issues and Practices in the Digital Age* 399, 399 (Peter K. Yu ed. 2007) (describing trade secrecy doctrine as “the forgotten step-daughter who toils in the shadow of her more privileged siblings: patent, copyright, and trademark law.”).

US International Trade Commission to indirectly fight against the misappropriation of trade secrets which occurred outside of the US territory) cannot hide the difficulties of ensuring an efficient protection of trade secrets globally in the case of cross-border transfer of trade secrets.

In short, the TRIPS does not avoid the traps of the international transfer of trade secrets. These traps can however be avoided or their risks reduced by a careful contractual treatment of trade secrets related transactions, both in terms of ensuring that the substantive conditions of protection can be granted and of the shaping of efficient dispute resolution mechanisms. In any case, the legal protection of trade secrets as well as the conditions and consequences of their transfer to third parties will clearly remain of fundamental importance in the future in an age where both businesses and individuals will increasingly need (and try) to capitalize on their confidential information in order to compete successfully in the global networked economy.