

## **Session 6 on Trade Secret**

16<sup>th</sup> Open Forum, St Petersburg 2016

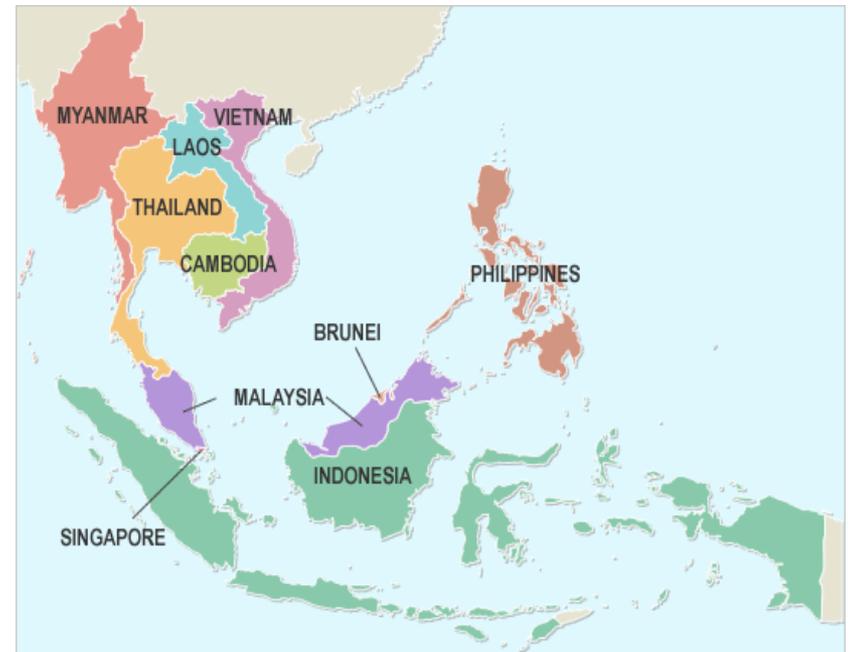
5-8 October 2016

Fabrice Mattei, partner

China



ASEAN



*“ Toyota understands that the potential of the Thai people is very high. In the future looking beyond production to R&D, there may be the chance that our **Thai employees will design the cars as well as produce them.**”*

Mr. Kyoichi Tanada, President Toyota Motor Thailand  
- 2014

## R&D CENTERS IN ASEAN

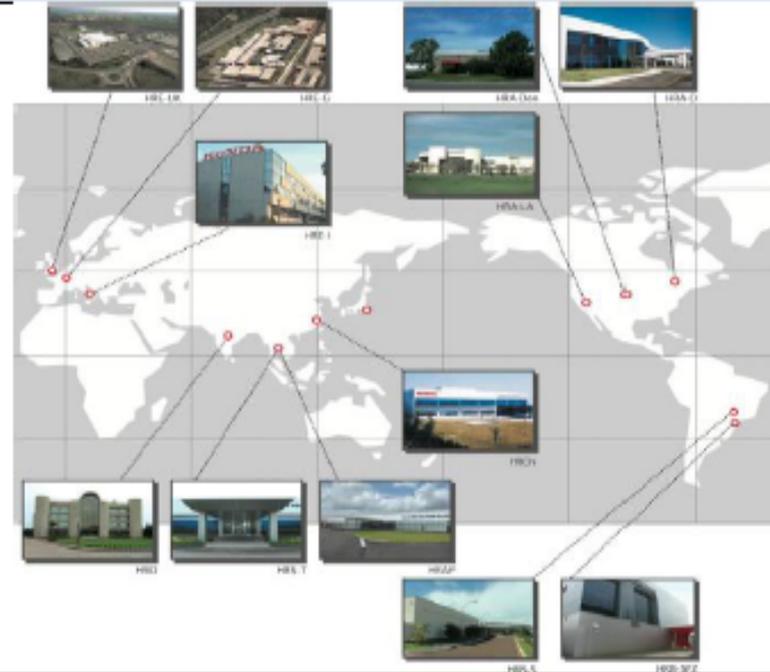
Malaysia	Thailand	Vietnam	Philippines	Indonesia	Singapore
Shell, Honda, Panasonic, Sony, Selborne, Danone, Motorola Etc.	Honda, Nissan, Toyota, Kao Chemicals, Kubota, Nisshin Stanley East West Seeds Etc.	Panasonic, Samsung, Virbac, Toshiba, Bosch, Humax Etc.	Canon Dost Packaging Samsung Etc.	Huawei, wilmar, Yamaha, Bridgestone Etc.	Hitachi, Abbott Mitsui <u>Chemicals</u> Etc.

# HONDA AND HITACHI R&D CENTERS

## Corporate R&D centers of Hitachi<sup>5</sup>



## R&D centers of Honda R&D Co., Ltd<sup>6</sup>



## LOCALIZATION, CO-INVENTING, HARVESTING OF LOCAL INNOVATIONS

- Tendency/characteristics of innovation in ASEAN: Localization of parts/process, **co-inventing**
- **ASEAN IP Framework 2016-2021**
- **ASEAN ECONOMIC COMMUNITY (“AEC”)**
  - ASEAN **single market** integration
  - **Localization** of cars, parts and suppliers in AEC
    - Employees’ invention benefits
    - Local innovation enhancement
    - Technology transfers increases
    - Merger and acquisition
- **AEC’s inventors’ employee benefits** to match with equitable economic development of AEC under AEC blueprint 2002.

# EMPLOYEE'S INVENTION BENEFITS

Countries	Employee's right to be named as inventor	Employee's right to compensation	Basis for assessing the compensation level	Overall assessment of the legislation
Vietnam	✓	✓	✓	Pro-employee
Indonesia	✓	✓	✓	Moderate
Malaysia	✓	✓	✓	Moderate
Thailand	✓	✓	✓	Moderate
Philippines	✓	X	X	Pro-employer
Singapore	✓	X	X	Pro-employer

*Pro-employee*



*Pro-employer*

# PROTECTING TRADE SECRETS IN CHINA

- **Legal framework**

- No unified governing law, trade secrets protected under:
- Anti-Unfair Competition Law
  - Article 10 specifies the acts of trade secret infringement and defines "trade secret".
  - Article 25 provides the administrative penalty
  - Article 20 specifies the liability of damage compensation
- Contract Law (Article 43)
- Criminal Law (Article 219)
- Supreme Court Judicial Interpretation [2007] No.2

- **Dispute resolution options**

- Arbitration (applicable if previously agreed in a contract)
- Civil/Criminal litigation
  - Criminal liability Threshold:  
Loss of the right holder: 500,000 RMB
  - Illegal income from the infringement: 500,000 RMB
  - Bankruptcy of the right holder
- Administrative complaint
  - Article 25 of Anti-Unfair Competition Law states that in the event in which a business operator infringes upon trade secrets, then the supervision and inspection department (e.g.AIC) shall order a cessation of the illegal acts and may impose an administrative penalty.

# PROTECTING TRADE SECRETS IN CHINA

- **Methodology**

- **Step 1: to prove Trade Secret**

- **Element 1: unknown to the public**
      - Plaintiff shall bear the burden of proof, including:
        - Explain and determine the technical know-how and its confidentiality
        - Prove the unknown feature is unique and creative
    - **Element 2: have been kept secret**
      - Internal rules
      - Confidential agreement
      - Labor contract
      - R&D agreement or report, etc.

- **Step 2: to prove infringement**

- **Element 1: is able to obtain its trade secret**
      - The identity and any relationship between the infringer and the right holder
      - Materials to prove the infringer was able to obtain or access to the trade secret

- **Element 2: substantially same in nature with the trade secret**

- Technical comparison would be necessary
      - A technical appraisal might be requested
      - Evidence could be collected by notarized purchase, evidence preservation or although administrative inspection

- **Step 3: Potential defence**

- Technology belongs to public domain
      - Independent research or innovation
      - Reverse Engineering (source of sample must be legitimate)

# PROTECTING TRADE SECRETS IN CHINA

- **Case 1: Eli Lilly and Company vs. Huang Mengwei re: technical secret infringement**
- **Citation:** (2013) Hu Yi Zhong Min Wu (Zhi) Chu Zi No. 119 Civil Judgment
- **Significance:** the First Interim Injunction case Concerning Trade Secret
- **Implication:** Usually the burden of proof on the plaintiff is onerous in trade secret infringement cases. The key factor in this case is that the defendant signed a written consent, which explicitly stated that he would delete the illegally downloaded confidential files. And the court accepts such a document as strong proof in favor of the plaintiff.

## Case summary

- Huang downloaded 33 confidential files and signed a consent to delete these illegally downloaded confidential files;
- But later Huang refused to perform in accordance with the written consent;
- The Eli company
  - applied for an interim injunction to forbid Huang from disclosing, using or allowing others to use totally 21 confidential files
  - Submitted the names and content of 21 trade secret files
  - Submitted the written consent signed by Huang
  - Paid a guarantee money
- The court approved and issued an interim injunction.

## PROTECTING TRADE SECRETS IN CHINA

- **Case 2: GE Company and etc. vs. Xi'an Jiuxiang Electronic science and technology Co.,Ltd. and Wang Xiaohui re trade secret infringement**
- Citation: (2007) Xi Min Si Chu Zi No.26 Civil Judgment
- **Rule:** the "information obtained from internal training" should be regarded as trade secret as long as it satisfies the requirements of trade secrets.
- **Judgment:** the Court decided that the defendant should stop infringing the plaintiff's trade secret and is liable for the damages of 500,000 RMB.
- **Case 3: Zhou Huimin vs. Quzhou Wanlian Network Technology Company re trade secret infringement(Appeal)**
- Citation: (2011) Hu Gao Min San (Zhi) Zhong Zi No.100 Civil Judgment
- **Rule: the client information stored in the online database** will be regarded as trade secret as long as:
  - It cannot be obtained from the website easily;
  - It brings economic benefits to the information holder
  - The information holder takes measures to keep it confidential.
- **Judgment:** the appeal Court sustained the first trial decision that the infringing party should be liable for the damages of 100,000 RMB.

# PROTECTING TRADE SECRETS IN CHINA

- **Practical check-list for protecting trade secrets**

- **Determine What Is a Trade Secret**

- Identify the trade secret information (specifically, by category)
- Identify where the trade secret information is located
- Determine who has access to the trade secret information

- **Procedures and Policies -- Internal**

- Restrict access to the trade secret information
- Mark and stamp documents containing trade secret information as “confidential”
- Keep documents containing trade secret information separate from other business documents.
- Enter into separate non-disclosure agreements with key employees and employees that have access to trade secret information

## **Policies and Procedures – Departing Employees**

- Disable accounts and network access privileges of terminated and departing employees
- Examine and/or copy employee’s laptop and other devices before departure
- Have employee acknowledge in writing confidentiality obligations and return of company documents and property

## **Physical Security Measures**

- Keep drawers or areas containing confidential information separated and locked
- Encrypt trade secret information
- Establish physical barriers to prevent unauthorized viewing of trade secret processes

## **Procedures and Policies – External**

- Require third parties to sign non-disclosure agreements as a condition of gaining access to trade secret information
- Ensure that trade secret is separately identified
- Use confidentiality/non-disclosure provisions in contracts with third parties

# PROTECTING TRADE SECRETS IN CHINA

- **Do's**

- Establish effective rules for protecting trade secret pursuant to China Laws
- Implement the rules with efforts
- Utilize a feasible system for identifying and managing trade secret
- Keep tracking the physical or electronic carriers of trade secret
- Keep the written records and files as potential evidence
- Involving Notary Public for securing evidence when necessary
- Consult professionals all the time

Don'ts

- Don't disclose the information before obtaining the signed confidentiality agreement
- Don't under-estimate the ability of reverse engineering of your contractor
- Don't leave the documents unattended even if it is marked as "confidential"
- Don't expect too much on the judicial remedies when you could protect and keep your trade secret better and longer
- Don't protect all the information as trade secret when filing patent would be more appropriate

Precaution is better than cure.

# PROTECTING TRADE SECRETS IN CHINA

- **Legal framework**
- No harmonized laws. Domestic legislations.
  - Anti-Unfair Competition Law
  - Contract Law
  - Criminal Law
  - Civil Law
  - Labour law
  - Trade Secret law

## **Dispute resolution options and remedies**

- Arbitration (applicable if previously agreed in a contract) mediation, conciliation
- Civil/Criminal litigation
  - Injunction, damages, seizure
  - Punitive damages

## DECRIMINALIZATION OF IPRS

- **Narrow criminalization scope**: Malaysia, Singapore, Myanmar and Vietnam don't provide criminal remedies in relation to registered patent or design infringements.
- **Medium criminalization scope**: under the Philippines' legislation infringement to registered patent or design becomes a criminal offence if infringement is repeated by the infringer or by anyone in connivance with him after finality of the judgment of the court against the infringer in the civil case. Brunei provides criminal enforcement actions for registered designs.
- **Wide criminalization scope**: Cambodia, Laos, Indonesia, Thailand provide criminal remedies for registered patent and design infringements.

Best Prac

## RELIABILITY OF JUDICIAL SYSTEMS

Courts	Countries
Specialized IP Courts	Thailand & Malaysia
Commercial Court (civil IP cases only)	Indonesia & Philippines
Regular Court with IP trained Judges	Singapore
Non specialized Courts with non specialized Judges	Brunei, Cambodia (*), Laos, Myanmar (*) & Vietnam

## INJUNCTION AND DISCOVERY PROCEDURE

Country	Interim injunction?	Discovery procedure?	Availability of criminal action?
Myanmar	✓	✓	x
Indonesia	x	✓	✓
Malaysia	✓	✓	x
Philippines	✓	✓	✓
Singapore	✓	✓	x
Thailand	✓ (but difficult to obtain in practice)	✓ (but limited)	✓
Vietnam	✓ (but difficult to obtain in practice)	✓ (but limited)	✓

## VIETNAM CASE

**People's Court of Ho Chi Minh City (Case No 20/LD-ST dated March 17 2005)and**

**Duc Hoa District Court of Long An Province (Case No 09/2010/LDST dated December 10 2010)**

The first case was in relation to an American company's firing of an employee for breaching the internal labour rules on confidentiality when the employee sent an email to her sister disclosing information about the employer's products. The court ruled in the employer's favour, that the termination was justified after recognizing the legal validity of the internal labour rules on confidentiality that the employer had issued and registered with the labour authorities.

The second case concerned a Vietnamese company, where an employee had signed a non-compete clause in the form of agreeing not to work for any competitor for a period of one year after ending the labour relationship with the employer. However, the unique aspect of this situation was that the employer had retained the right to regularly update the list of companies that it considered to be its "competitors" which employees could not go to work for, but the employees did not get any material benefits in return for complying with this clause. Despite this, the court still recognized the legality of this non-competition agreement when it held that this was a purely civil agreement and thus was viewed as the will of both parties.

The courts of Vietnam have had a tendency to uphold measures protecting trade secrets that the parties have agreed to, but there are still some legal risks. In the Labour Code of 2012, the lawmakers stipulated that if there is an agreement on protection of trade secrets, then in addition to agreeing on penalties to compensate for breaches, the confidentiality agreement must take into account the benefits of the employee (Article 23.2 of the Labour Code). This may create room for courts to tend to rule in favour of the employee in more cases.

## THAILAND CASE

### ***April 2011 - IP Court Judgment Red Case No. TorPor38/2554 (2011) - Employment case.***

Employees had misappropriated the employer's valuable trade secrets in relation to magnetic powder technology.

Injunction against the use and disclosure of the plaintiff's trade secret technologies, including machines, processes, and related information + damages of THB 20 million (about USD 667,000), including an interest payment of 7.5 percent per year to be payable on this amount, starting from the date of the complaint until the completion of the payment. In addition, the defendants were ordered to pay the plaintiff's legal fees.

This total sum also included a penalty of THB 1 million (about USD 33,500) per month for any further infringing acts, as of the date of judgment. It was also ruled that all of the defendant's machines, equipment, information, and products, which infringed our client's trade secrets, would be vested with our client. The machinery has an estimated value of more than THB 30 million (about USD 1 million).

First case in which a trade secret owner has successfully enforced against trade secret misappropriation in Thailand. In addition, the damages award is also the largest amount ever provided by the IP Court, with total damages of at least THB 52 million (about USD 1.7 million).

## MALAYSIAN CASE

### ***Gordagen Pharmaceuticals Pty. Ltd vs. Ms. Nurul Athirah binti Sufi (Ms. Athirah) - High Court of Malaysia - judgement against a former employee of the Company.***

Ms. Athirah was employed by Gordagen in January 2014, as a chartered accountant. During the time of her employment she undertook key financial duties and was privy to highly confidential information.

On November 13, 2014, Ms. Athirah resigned from Gordagen. On November 18, 2014, Gordagen discovered that Ms. Athirah had sent a large volume of highly confidential information to her private email account. This information included documents from Board meetings, financial accounts and reports, as well as documents related to the Gordagen's financings.

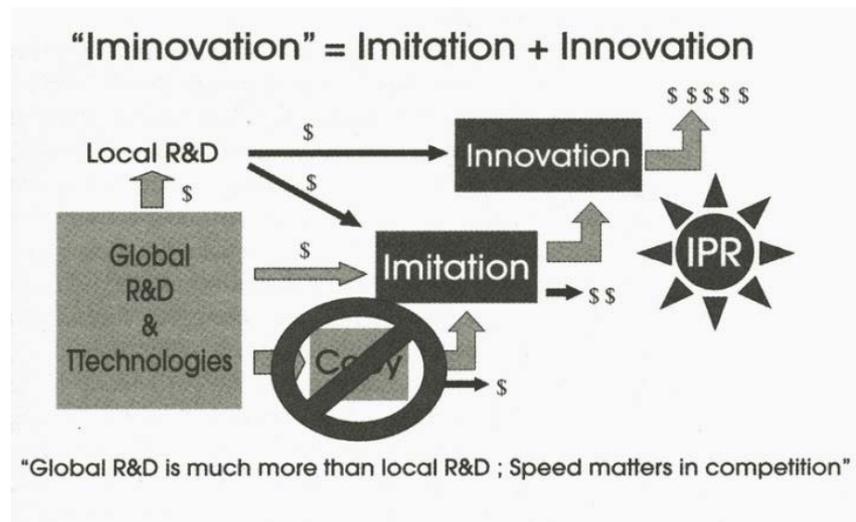
Gordagen served a letter of demand to Ms. Athirah to return the materials and to refrain from disclosing the information to anyone. No response was received to the letter of demand and Ms. Athirah returned to Malaysia.

Gordagen sought an interlocutory injunction in the High Court of Malaysia to restrain Ms. Athira from disclosing any of the confidential information to third parties and to return the information to Gordagen's counsel. The High Court of Malaysia issued an injunctive order against Ms. Athirah on December 15, 2014. Ms. Athirah returned the necessary information, and in compliance with the injunctive order, undertook not to make any disclosures to third parties.

**“Gordagen is commercialising valuable intellectual property and our duty to our shareholders is to make sure that this asset is carefully protected at all times. When reasonable attempts to set matters straight were ignored, we acted decisively and swiftly to secure our intellectual property rights”**

## LEARNING

- Qualifying confidential information in ASEAN
- Injunctive enforceability of trade secret rights
- Foreign judicial system effectiveness
- Role plaid by labor laws
- Due Diligence Non Disclosure Agreement ("DDNDA") prior to acknowledging the Disclosing Party's confidential information





**Thank You!**

Fabrice Mattei

Email: [fmattei@rouse.com](mailto:fmattei@rouse.com)

[www.rouse.com](http://www.rouse.com)