INTERNATIONAL TRADE SECRET PROTECTION

I. Introduction

Already in Roman times there was trade secret law and practice. A cause of action obtained - actio servi corrupti - against a third party who enticed another's slave to divulge his secrets, with double damages as potential recovery.

Greater concern with the preservation of commerical morality and protection of trade secrets took hold in England and spread throughout Europe and elsewhere with the industrial revolution. But trade secret law grew in a very haphazard fashion. Even today there is little trade secret law, statutory or decisional, in most of the world in spite of the fact that most societies have become less and less agarian and more and more industrial. Even in countries with the highest degrees of industrialization and the most sophisticated legal systems there are many uncertainties and open questions in the area of trade secrets and know-how.

Before Aaron Wise's monumental opus there was a dearth of publications (in English) on this topic. Now - thank God! - we have "Trade Secrets and Know-How Throughout the

World" by Aaron Wise (Clark Boardman, 1981) which is an in-depth five-volume treatise of trade secret law and practice in selected countries. He discusses the definitional, property law, criminal law, tort law, contract law, antitrust law, investment, licensing and tax aspects of trade secrets and know-how and confidential information for each of the 20 countries which he covers, i.e., Japan, India, Australia, Taiwan, Belgium, England, France, Germany, Italy, Luxembourg, EEC, Switzerland, Demark, Spain, Argentina, Brazil, Colombia, Mexico, Peru and Venezuela. An indispensable reference work!

II. CANADA (ENGLAND)

A. Definitional Aspects

Canadian law on trade secrets is "judge-made law" like the English law. Canada generally follows English common-law jurisprudence with some influence from U.S. jurisprudence. In Quebec civil law reigns. (Wise, after devoting one whole volume out of five (over 1000 pages) to England, leaves Canada completely by the wayside.)

As regards subject matter, Nelson Landry ("The Protection of Trade Secrets in Canada", Patent and Trademark Institute Bulletin, 1982, p. 712) makes the point that courts, due to the empiricism of the common law, go more by examples than by a general definition in determining the existence of a trade secret.

Examples:

- the method of production, composition of materials and process employed to manufacture a unique hinged skate boot,

- secret formulas and processes for acrylic thickeners,

- a chemical formula and process for the production of a coating solution,

- the special coatings to be used in association with special equipment and processes for industries and decorating plastic undermaterials,

- a special formula and manufacturing process for a hair conditioner,

- the formulation of a chemical to prevent sprouting of stored potatoes and particular methods for applying the chemicals,

- devices and processes in the manufacture and bundling of reflexpins,

- special wax molding for precision part manufacturing, etc.

Sometimes the courts use the terminology trade secrets and confidential information interchangeably, and sometimes they make a distinction with respect to confidential information and occasionally know-how. (Empiricism of common-law.)

> The common or general approach in the Canadian courts has been to apply the basic principles of the law of unfair competition in a process that evolved from an expressed or implied contractual relationship to a fiduciary relationship even noncontractual, arising out of the consideration of tort law aspects of trade secrets. (Landry, id. at 714)

B. English Common Law

Unlike in civil law countries, in common law countries less attention is paid to definitions for generally recognized legal concepts such as trade secrets. Thus, while Wise (and prior scholars) can't give a definition, he recites the elements as follows (id. at 2-11):

1) It consists of information of an industrial, commercial, scientific, financial, administrative, business organizational or contractual nature;

2) The information must be secret either in an absolute or a relative sense;

3) The possessor must demonstrate that he has acted with an intention to treat the information as a secret;

4) The secret information must be capable of industrial or commercial application; and

5) The possessor must have an (economic) interest in the information worthy of legal protection, bearing in mind English principles of equity.

Following Saltman (Saltman Engineering Co. v. Campbell Engineering Co. (1948) 65 R.P.C. 203) and the Terrapin (Terrapin Ltd. v. Builder Supply Co., (1966) R.P.C. 128; (1967) R.P.C. 375) decisions the concept of "confidential information" has gained juridical significance in its own right. Hence, there must be a confidential relationship but the information need not be secret, not even relatively. (Springboard Doctrine, infra)

Wise concludes (id. at 2-68.5):

> ... there is sufficient authority for the proposition that confidential information is now a recognized concept in English law, a concept distinguishable in several material respects from the trade secret. While the concept may not be strictly new to English law, it is only relatively recently that it seems to have taken on such significance in what generally might be called the trade secret area, supplanting, in many situations, the trade secret as the concept toward which the English courts direct themselves.

A trade secret ceases to be a trade secret when the original holder, a disclosee or third party not bound to confidence causes it to fall into the public domain. Not (necessarily) so for confidential information - except when original holder lets it out. (Springboard Doctrine, infra)

Skill, knowledge and experience of former employee are his to use and divulge as part of his person but the line between this and trade secret or confidential information is difficult to draw.

Know-how is well-understood but without precise meaning (Wise: "sphinx-like quality", id at 2-95). Confusion reigns especially in relationship to trade secret concept.

According to Wise (and other writers), trade secrets, etc., while assets, are not property strictly speaking (except in tax law) and no English criminal law of trade secrets exists. No English statute prohibits unauthorized disclosure, use or theft of trade secrets or confidential information.

C. Tort Law Aspects - Springboard Doctrine

The tort law aspects of trade secrets, confidential information and know-how appear to be highly developed

with a multitude of pertinent decisions. Wise spends almost 300 pages on this but still calls it "in many respects, vague" (id. at 2-151).

The disclosure of confidential information, including trade secrets, is protected against misuse by the person to whom it is disclosed if, according to Wise (id. at 2-158.1 - 2-159) the following four requisites are fulfilled:

> (1) The trade secret or confidential information in question must be secret in an absolute or relative sense, or, if not secret, it must be such that its appropriation, use, or divulgence by the party against whom the action is brought would be unjust under the circumstances;
>
> (2) There must be a relationship of contract, express or implied, or confidence, between the parties;
>
> (3) There must be an actual or threatened breach of contract or confidence; and
>
> (4) The plaintiff must be a proper party - the party to whom the duty of confidence and good faith is owed.

The holder of information, even information which has fallen into the public domain, may be entitled to injunctive relief based upon the "Springboard Doctrine" which was enunciated in a famous footnote of the Terrapin case, supra, as follows:

> ... the essence of this branch of law, whatever the origin of it may be, is that a person who has obtained information in confidence is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication, and springboard it remains even when all the features have been published or can be ascertained by actual inspection by any member of the public . . . The possessor of the confidential information still has a long start over any member of the public . . . It is ... inherent in the principle upon which the Saltman case rests that the possessor of such infomation must be placed under a special disability in the field of competition to insure that he does not get an unfair start (emphasis added).

The rationale of the Springboard Doctrine which has significantly increased the rights of trade secret owners and extended the scope of their protection, as explained by Wise (id. at 2-165), is

> that all competitors of the orginal holder (usually, the divulger) must be placed in the same situation vis-vis the original holder of the confidential information, so that no particular competitor can gain an advantage because of his prior relationship with him. On the basis of this logic, once the other competitors have had sufficient time to devote time, labor, and money to offset the "head start," the injunction against the head start defendant should cease. The issue of how long an injunction issued on the strength

> of the springboard doctrine should last has only begun to be explored. While it is logical to say that it should last only as long as necessary to allow trade rivals to "catch up", the practical problem for the courts, assuming they accept the "catch up" rationale, is how to determine how long a period of time is sufficient to allow for this. It is certainly conceivable that in certain cases a long time would be needed, and that the injunction would, in effect, be almost a permanent injunction. As a practical matter, however, the courts, in applying the springbroad doctrine, have not necessarily limited the terms of their injunctions to the necessary "catch up" period.

According to Landry this doctrine is very much alive in Canada:

> For the past twenty years the Springboard Doctrine has been applied and followed, not only in the United Kingdom but also in Canada, both in common law and civil law jurisdictions... (id. at 725)

Landry also stated (id. at 734) that he has "not found in Milgrim on 'Trade Secrets' any indication that the Springboard Doctrine or its equivalent has been applied in the United States." (What about the Shellmar Rule?)

D. Antitrust Aspects

Unlike West Germany, EEC, or United States antitrust law, the British Restrictive Trade Practices Act of 1976, and in particular, the parts dealing with the registration of agreements, are directed principally at domestic agreements, and mainly at horizontal or horizontal-type restraints.

In a trade secret or know-how license or assignment between a foreign licensor not carrying on business in the United Kingdom and an English licensee, the licensor can impose just about any sort of restriction he wishes on the licensee or himself. The only qualifications to this rule are:

(1) That the restrictions do not constitute one or more common law restraints of trade (for example, covenants not to compete not reasonable in time, place and sphere of activity);

(2) That the restrictions do not violate EEC antitrust law;

(3) That the agreement, or certain of its provisions, do not result in a monopoly or constitute a restrictive practice by one of the dominant firms in the industry, as set forth in the Fair Trading Act 1973.

Where the licensor in a two-party agreement is not carrying on business in the United Kingdom, the registration and judicial review provisions of the British domestic antitrust law, the Restrictive Trade Practices Action 1976, will not apply. And in so far as the great majority of trade secret or know-how license or assignment agreements are concerned, the British monopoly and collective restrictive practices legislation will also be inapplicable.

The same conclusion made in connection with the above instance also applies where the licensor or assignor is English and the licensee or assignee is foreign, and not carrying on business within the United Kingdom.

E. Quebec Civil Law

Landry makes the interesting points (id. at 718, 728) that Quebec courts not only refer to common law but also to US jurisprudence and that there is no signficant distinction between the civil law and common law treatment.

F. Australia

Australia like Canada and other Commonwealth Nations, is a common-law country. The Australian law of trade secrets, confidential information and know-how is thus made up mostly of English decisions. (There are no Australian statutes and only a small number of Australian cases,

notably Ansell Rubber v. Allied Rubber, [1967] V.R. 37 (1966) and Mense and Ampere Elective v. Milencovic [1973] V.R. 748 (1972)). George Forrai simply treats English case law as part of the Australian law does Landry in his recent article on trade secrets i. supra) "(s)ince English case law is considered wei. ity in Australia". ("A comparative Outline of the Law of Trade secrets in Australia and the U.S.A.", 54 JPOS 538, 612 (1972)).

(N.B. Incidentally, A.E. Turner's "The Law of Trade-Secrets", Sweet and Maxwell, 1962, a com ve study of English and American trade secret law with . nsive appendix of commonwealth cases, has still a lot currency.)

III. JAPAN

A. Introduction

Japan has achieved great technological advances in recent decades due in large measure to the introduction of foreign technology into Japan through patent and know-how licensing and technical assistance. The English word "know-how" is part and parcel of the Japanese vocabulary.

Japanese companies are busy creating, using, buying and selling trade secrets on a daily basis; the Japanese government taxes profits made from licensing them; and Japanese accountants list them on balance sheets when purchased or received as consideration for stock.

However, the legal protection for trade secrets in Japan is weak or nonexistent - except for contractual enforceability of a non-disclosure agreement. I.e., trade secrets law is not yet sufficiently developed to assure the owner of valuable technical know-how or other kinds of trade secrets, satisfactory remedies against their misappropriation. Reason: Japan has a civil law system emphasizing statutory law but no special Japanese statute to define a trade secret and its qualities, the means for acquiring it and the extent of and mechanism for its

protection. No provision in the Civil Code and other statutes for civil remedies against unauthorized disclosure or misappropriation of trade secrets, exists nor a provision in the Criminal Code to punish such acts - unlike in criminal codes in many European countries.

Litigation is a rare phenomenon. Amicable settlement and conciliation are prevalent. Very few court decisions especially in trade secret area exist due also to absence of employee mobility and instruments of suretyship by third persons.

Origins of Japanese law: German and French with underlayer of Chinese and Japanese traditions and more American influences.

B. Trade Secret/Know-How - Definitions

According to Aaron Wise (id. at 1-22) the terms "industrial secret" and "commercial secret" are in use.

> The former refers to trade secrets of a technical, technological, scientific or mechanical nature, such as but not limited to secret processes, formulae, unregistered industrial designs, manufacturing techniques and methods, secret machinery or devices, and the like; the latter corresponds to secrets of business nature, such as confidential customers lists, price lists, sources of supply, accounting techniques, and the like.

The term "Know-How" is roughly synonymous with "industrial secret"; possibly broader and inclusive of technical assistance needed for implementation, e.g., manufacturing processes.

Wise (id. at 1-29):

> Perhaps the best overall interpretation would be that the term know-how in Japanese law refers most often to secret industrial processes, techniques and other such knowledge (including technical trade secrets) together with the technical assistance, services, and practical experience to implement same. It may have secondary meanings, and, thus, can sometimes relate to nonsecret knowledge and experience (i.e. to implement a process patent), and to commercial trade secrets in certain instances.

Trade secrets and know-how have characteristics of property for some purposes (state confiscation, taxes, accounting) but are not classified as a right in Civil Code and not mentioned in Commercial Code.

> Trade Secrets and know-how are generally recognized differently by the Japanese as industrial property, and any right or interest therein is not considered to be an industrial property right. (Wise, id. at 1-39).

But cf. Deutsche Werft case, infra.

Wise's overall conclusion (id. at 1-41):

> There is no question that industrial trade-secrets and industrial know-how are functionally treated as property by Japanese administration and judicial authorities and, even though not property rights (or real rights) under the Civil Code. At the very least they are considered de facto property or interests with a property like character under Japanese law. ... but at this stage in the development of Japanese law, it must be said that know-how, and probably trade secrets as well, are not "property" or "property rights" in the sense of the Civil Code provisions dealing with property.

Licensing of Trade Secrets and Know-How is covered by Section 1.06 of the Japanese rules governing the law applicable to contracts. Licensable subject matter:

1. Patentable as well as unpatentable inventions;
2. Technical trade secrets;
3. Know-how incidental or complementary to patents.

C. Protection of Trade Secrets Under General Tort Principles

There is an Unfair Competition Prevention Law (Law No. 14, 1934) in Japan but it contains no provision concerning misappropriation of trade secrets, although it is modelled after the German Law of 1909 concerning Prevention of Unfair Competition, which does. Civil remedies against

unauthorized disclosure or misappropriate of trade secrets must be sought under the general tort provisions of the Civil Code.

Article 709 of the Civil Code sets out the general tort principle as follows: "A person who, willfully or negligently, has injured the right of another is bound to compensate him for damages which has arisen therefrom."

The "first question", as posed by Teruo Doi ("The Intellectual Property Law of Japan", Sijthoff & Noordhoft 1980, p. 87), is whether Article 709 is available to an owner of trade secrets who seeks damages for losses caused by their misappropriation. He then goes on to answer it as follows:

> If Article 709 is strictly interpreted, the injured party can recover damages only where he can prove that he has a right, and that this right was injured. But, by a liberal interpretation, it is considered that if the injured party can prove that he has an inviolable interest and this was injured by an illegal act, he can recover. The liberal theory suggests that "injury of right" should be interpreted to mean the existence of "illegality" in the defendant's act. Thus, the owner of trade secrets can recover damages under Article 709 according to this theory.

As regards injunctive relief, Article 198 could be resorted to. It provides: "If a possessor is disturbed in his possession, he may in an action for maintenance of possession demand discontinuance of the disturbance as well as reparation in damages."

Doi's conclusion (id. at 88):

> As a proper extension of this provision, injunctive remedy can be granted where the claim is based on ownership or other exclusive rights. The basis for the remedy is considered to be the inviolability of the right in question, and thus the remedy is extendable to certain exclusive rights other than real rights.

As to know-how, Justice Kenichiro Osumi ("Know-how and Its Investment" 1 LAW IN JAPAN 92, 102 (1967)) was reluctant to conclude that an injunctive remedy was available under the existing law because of the absence of a specific code provision granting such a remedy and the fact that the existing law could be construed to give exclusive control to the owner of know-how. But if an injunctive remedy is not given to the owner of know-how whose secret information was acquired by some unlawful means such as those provided under the Criminal Code, justice would not be achieved. Damages alone may not be an adequate remedy.

See the decision by the Tokyo High Court in Deutsche Werft Aktiengesellschaft v. Chuetsu-Waukesha Yugen Kaisha 1966, apparently the only case in Japan which discusses the legal status of know-how.

In this case, Deutsche Werft, plaintiff, concluded an agreement with Waukesha Bearings Corporation (Wisconsin) by which plaintiff granted an exclusive license to manufacture and sell oil-lubricated stern tube sealings for propeller shafts of ships in the United States and Canada using plaintiff's know-how. Waukesha agreed to keep the process secret. Waukesha, for the purpose of manufacturing and selling the stern tube sealings in Japan, signed a joint-venture agreement with Chuetsu Metal Works, and organized Chuetsu-Waukesha Yugen Kaisha, defendant, each party contributing 45 percent of the capital. The defendant, started operations and plaintiff filed a petition for a temporary injunction against the defendant, contending that the latter's act of manufacturing and selling the stern tube sealings constituted violation of the contract between the claimant and Waukesha, and that, therefore, plaintiff was entitled to an injunction against both defendant and Waukesha. The Tokyo District Court denied the injunction.

The Tokyo High Court then dismissed the appeal filed holding as follows:

> No matter how know-how is to be considered under the law, know-how has property value and yet it has not been recognized as a legal right.
>
> ....

> Protection of know-how can only be achieved by the effort of the owner to maintain it as an industrial secret and prevent disclosure to others.

Thus, while acknowledging the property value of know-how, the Tokyo High Court denied injunctive relief against a third party who willfully misappropriated the know-how on the ground that there was no statutory provision in support.

D. Protection of an Employer's Trade Secrets From Mis-Appropriation by His Employees

Little mobility of employees from one company to another exists in Japan due to the prevalence of life-time employment. Hence, there is little incidence of theft of trade secrets by employees and a paucity of court decisions.

An employer can by contract bind his employees not to disclose information that the latter acquire during the course of employment. In addition, an employer may restrict the conduct of employees after termination of employment, possibly for a limited period. The enforceability of a post-employment restriction had never been in the courts until Yugen Kaisha Forseco Japan, Ltd. v. Okuno and Daimatsu, decided by the Nara District Court in 1970.

In this case, the plaintiff was a joint-venture company established by Forseco International of Great Britain and Ito-chu and other Japanese companies. The defendants, Okuno and Daimatsu, were employed by the plaintiff's

predecessor. The defendants signed an agreement not to disclose to others secret information which they acquire during the employment as well as after its termination and not to engage in any business in competition with the plaintiff for two years after the termination of the employment contract. Subsequently, the defendants left and became directors of a newly-organized company called Appolo Chemical Corporation.

The plaintiff filed a petition for temporary injunction against the defendants with the Nara District Court, which the court granted on condition that plaintiff post a bond in the sum of 1,000,000 yen. The court found that the restriction was reasonable and did not violate public order and good morals.

E. Criminal Sanctions for Unauthorized Disclosure or Misuse of Trade Secrets

No provision exists in the Criminal Code that punishes acts of unauthorized disclosure or misuse of trade secrets, or industrial esponiage. However, provisions of the Criminal code concerning intimidation, obstruction of another's business, theft, fraud, breach of trust, and the like may apply to such conduct.

The first industrial espionage case in Japan was decided in 1965 by the Tokyo Disctict Court in Japan v. Telenchef et al - a battle between two leading printing companies, one of which enlisted the staff of a private detective agency operated by one George Telenchef. The court held that defendants were guilty of intimidation, trafficking in stolen property, and obstruction of another's business.

In Japan v. Himei (Osaka District Ct., 1967) the defendant, an R&D employee of a chemical company in Osaka, left his employment, carrying with him a material developed for use in the manufacture of vinyl chloride. He took also a document file containing a report concerning a new process for the manufacture of vinyl chloride. All of the things were kept secret by the company. The court recognized the value of such material and documents to the company and applied an Article of the Criminal Code concerning embezzlement in the conduct of business.

A draft of the Revised Criminal Code (of 1974 vintage) submitted by the Council to the Minister of Justice for adoption includes a provision that would penalize industrial espionage. (Apparently still not adopted.)

F. Regulation of Know-how Licensing Under the Antimonopoly Law

Unreasonable restraints of trade and unfair business practices, including those relating to intellectual property transactions, are prohibited under the Antimonopoly Law (Law concerning Prohibition of Private Monopoly and Maintenance of Fair Trade - Law No. 54, 1947). The Antimonopoly Law was drafted with an effort to incorporate the essential features of the Sherman, Clayton and Federal Trade Commission acts as well as important principles established by the courts of the United States. Article 1 of this law prohibits the following three types of conducts: 1) private monopolization; 2) unreasonable restraint of trade, and 3) unfair business practices.

The term "technology" is found in this article and in Article 6 which elaborates on what is meant by "unreasonable restraint of trade."

Government restrictions on international licensing were removed in 1968. After that the Fair Trade Commission (FTC) has been playing a major role in the suppression of unfair business practices in various types of licensing transactions. Every international contract had to be reported to the FTC.

> The technology restrictions began to dismantled in 1968 and were all removed by 1974. Beginning in 1978, the licensing procedures were also simplified... Today Japan has no institutional barriers whatsoever on technology transfers. The questions now concern problems that arise at the day-to-day level. One such problem for the Japanese is protection of know-how in joint R&D work or in a licensing situation. Patents are legally protected, but know-how is hard to protect. The procedure for identifying or confirming the transfer of know-how after an agreement on a technology is yet to be established. (Hirano, Director of Science and Technology, Japan Trade Center at LES Meeting, NYC, 2/25/81, pp. 7-8)

Under Article 23 rights exercised under the patent, trademark, copyright laws are generally exempted but this exemption is not absolute. While there is a paucity of decided cases as to the scope of Article 23, guidelines (Antimonopoly Act Guidelines for International Licensing Agreements) were provided by the FTC in 1968.

As regards know-how license agreements the guidelines (Item II) simply state that "the aforementioned guidelines (i.e. Item I re patents) shall apply to international know-how licensing agreements." But the guidelines concerning patent licensing agreements are not always applicable to know-how licenses because of their different legal nature. Some of the fundamental questions regarding know-how transactions are left unanswered by the guidelines.

It is naturally legal to impose secrecy obligation on the licensee. It is also legal to require the licensee to pay royalty for the license of know-how. But it is not clear whether the royalty obligation continues after the know-how becomes public knowledge due to a cause not attributable to the licensee. (See Vinylam, Inc. v. Nomura Toys Ltd., Tokyo Dist. Ct., 1973.)

Generally, the licensee may freely use the licensed know-how after the expiration of the contract period unless otherwise provided in the agreement. In this connection, there is a question as to whether the licensor can legally prohibit the use of a licensed know-how by the licensee for five years after the termination of the agreement.

IV. MEXICO (LATIN AMERICA)

A. Introduction - Definitions

In Mexico and other Latin American countries, know-how licensing rather than patent licensing (due to deliberate policies of emasculating patent protection) is the prevalent form of licensing and technology transfer. For instance, among the license agreements approved by Peru's CONITE in its first year of existence (1977), 155 covered know-how and only 32 patents (Pamphlet of the Cartagena Agreement Junta, "Transferencia de tecnologia de empresas extranjeras hacia el Grupo Andino", Lima 1979, p. 22). This ratio may have shifted since then even more in favor of know-how and there is no reason to believe it is any different in other Latin American countries. The patent climate has not improved any.

Like in France, the terms "secreto industrial" and "secreto commercial" are in general use in Latin America but without good definitions. The term "know-how" is similarly situated.

The best and perhaps only characterization exists in Peru's General Industry Law of 1970 (Art. 87 & 88):

industrial secrets are manufacturing processes and know-ledge relative to the use and application of industrial techniques; which are secret and truly novel; and as to which the holder has taken measures necessary to preserve their secrecy; and which do not consist merely of the manual dexterity or personal skill of one or more workers or employers.

In none of these countries does one find a body of trade secret case law (and little legal commentary) to which one can turn. There is not more than a couple of cases in each of Argentina, Brazil and Mexico. Likely reasons:

1) trade secrets and know how cases are endemic in industrialized countries and

2) labor legislation favors employees greatly.

Trade secrets and know-how are formally not considered industrial property except perhaps in Peru.

B. Criminal and Civil Law Provisions

All of these countries have provisions in their Penal Codes making it a crime for an employee or, in most cases, an ex-employee, to disclose a trade secret of his employer or ex-employer. The great majority of these provisions do not restrict an employee's unauthorized use of trade secrets

for his account or that of a third party. Brazil's statute is a notable exception. Also, nearly all of these ciminal provisions apply only to the unauthorized disclosure of industrial or technical trade secrets, and not to commercial trade secrets such as client lists and the like. Penalties and sanctions tend to be quite light, except for Colombia.

Most Latin American countries have civil law provisions which directly or implicitly prohibit employees, agents and others in a relationship of trust and confidence from disclosing or using for their own benefit, trade secrets communicated in confidence; and permit an employer to dismiss an employee without prior notice or indemnity upon proof of same.

In the event of trade secret abuse, proceeding via a criminal, rather than civil, action (e.g. penal trade secret or unfair competition statutes, theft statute, etc.) should be considered because in certain Latin American countries, penal actions usually are speedier and cheaper, offering a better opportunity for pre-trial "discovery" and relief approximating an injuction than a civil action.

Only certain Latin American countries offer a reasonable possibility of obtaining preliminary and permanent injunctive relief in a civil action (e.g. - Argentina, Colombia, and possibly Peru).

In Mexico, according to Horacio Rangel O. ("Know-how Licensing in Mexico", LICENSING LAW & BUSINESS REPORT, Sept/Oct. 1982, p. 36),

> (e)ven though technical information, know-how, and trade secrets which are not covered by patents are not specifically protected against misappropriation ... the Criminal and Civil Codes for the Federal District could offer protection to the owner of unpatented proprietary information.
>
> The Criminal Code could be applied effectively to punish those who unlawfully obtain a profit by deceitfully or fraudulently taking advantage of another. The Criminal Code also makes unlawful the disclosure of industrial secrets obtained by persons as a consequence of their employment, duties, or positions when the disclosure is made without any justifiable cause and causes injury to another without the consent of the party that might be injured. Finally, the Criminal Code could be used as the basis for repairing the damage resulting from ... misappropriation of technical information, know-how or trade secrets.
>
> Similarly, the Civil Code imposes the obligation to repair damages which result from actions which are unlawful or contrary to good customs. The repair of the damage must be made at the victims' option by means of either the payment of damages and losses, or by the restoration of the status quo. The Civil Code also provides that a person who, without consideration, enriches himself to the detriment of another is obliged to idemnify the latter for his impoverishment in the same measure in which he enriched himself.

In Colombia, a recently enacted Penal Code provides severe penalties for violations of industrial property rights. E.g. one who illegally discloses a trade secret is subject to a fine of up to 500,000 pesos and a prison term of up to six years.

Interestingly, in Peru the holder of technical trade secrets can also file a complaint with the Industrial Property Office. Speedier relief, in proper cases, in the nature of injunctive remedies, can be expected from the Industrial Property Office. The injured party files a "denuncia". The Office serves a copy on the alleged infringer, who has 15 business days (without any time extension) to answer. During this time and thereafter, the Office can gather proof through its own investigation. If the evidence clearly establishes the existence of the violation or infringement, the Office issues the necessary order(s) or takes the necessary measure(s) to stop the infringement.

A company with valuable trade secrets of any kind in Peru should establish strong security measures, for this is a precondition to relief in the Peruvian courts and draft contracts with effective secrecy/non-use provisions and non-competition clauses. A good rule for other countries, too.

C. Trade Secrets and Know-how Under Contract Law

By and large, contractual prohibitions against disclosure and use by employees, agents, contract manufacturers, joint venture partners, etc. are valid and enforceable.

Post-employment covenants not to compete, binding employees, are strictly and narrowly construed in Latin American Countries, and are of doubtful enforceability in several countries.

In this connection, the leading Argentinian case of Ducilo v. Barcia is worthy of discussion.

Mr. Barcia, an engineer, went to work in 1953 for Ducilo, a nylon manufacturer affiliated with DuPont. His employment contract (signed in 1955) contained a provision stating that he could not divulge or use for his own purposes any secret or confidential information of the company, even after the employment relationship ended. In 1958, after several previous promotions, Barcia was placed in charge of Ducilo's nylon operations. Six years later, Ducilo learned that Barcia was discussing employment with a competing firm.

Feeling that Barcia would accept another job, and would reveal secret processes, techniques, and other know-how, Ducilo sought court action. It brought a recurso de

amparo to prevent Barcia from divulging such data, in accordance with his contractual obligation, and also sought the sequestration (secuestro) of certain important documents in his possession. The court granted Ducilo this relief, Barcio having voluntarily consented to the orders sought by Ducilo.

Very shortly after this episode, Ducilo had Barcia sign another agreement to the effect that, for a period of five years after his employment with Ducilo terminated he would not work for any enterprise: involved directly or indirectly in the manufacture of nylon thread at any stage; or in the manufacture of machinery or the setting up of plants in this field. Subsequently, Barcia left Ducilo and went to work for another company manufacturing nylon thread, apparently in violation of the covenant.

Ducilo sought and obtained a temporary restraining order prohibiting Barcia from violating the covenant until final determination of the litigation. Barcia's interloctury appeals failed.

On the merits of the case, the lower court ruled that the covenant was null and void, because by limiting the employee's freedom to work, it violated the Argentine constitution and general public policy. The Argentine Court of Appeals reversed the lower court on this point, brushing

aside the constitutional argument. It held that a covenant not to compete would be valid if limited to a more reasonable span, that is, three years after the employment relationship ended. This made the five-year covenant invalid only insofar as the excess two years were concerned.

The Court of Appeals did not rule on the injunction granted by the lower court prohibiting Barcia from divulging, or using for his own or a third party's benefit, the secret or confidential information of Ducilo. Therefore, this injunction stood.

According to Wise (WTI Presentation on "Protection of Trade Secrets in Latin America", NYC, Oct. 1977, p. 14) the decision on the merits of the case established two principles:

> That a covenant imposed on an employee not to compete should be limited to an absolute minimum (in Argentina) of three years after employment terminates, and should not otherwise have the effect of preventing him from working at all in his field.
>
> A non-disclosure/non-use of trade secrets and confidential know-how clause is valid and enforceable, even after the employment relationship ends, without limitation in time. However, where all, or substantially all of the data is in, or subsequently falls into the public domain without the employee's fault, the obligation presumably would cease to apply, and the employer could not enforce it.

D. Technology Transfer Regulations

Very comprehensive and restrictive technology transfer laws and regulations have been in existence for a decade in Mexico, Brazil and the Andean Pact countries. Argentina and Chile which started out with such strict laws and regulations have thrown them overboard. These technology transfer control and registration rules exhibit great similarities in terms of the written law; some differences exist in their implementation. While their major emphasis appears to be on patents and trade marks, licensing and transfer of "technical knowledge" (know-how) is also covered.

In Mexico the 1972 law was recently repealed and replaced by the Law on the Control and Registration of Transfer of Technology and the Use and Exploitation of Patents and Trade Marks, effective as of October 10, 1982. On November 25, 1982, regulations were issued.

As regards structure of the 1982 law, Article 2 establishes what is to be registered. To the list contained in the 1973 law it adds as subject to registration agreements for "basic or detailed engineering", "advising consulting and supervising services", "licenses of copyright for industrial exploitation" and "computer programs".

Article 4 adds jurisdiction over in-bond agreement. A new provision in Article 9 establishes a rather wide range of criteria for exercise of the registry's discretion. Article 12 establishes a 90 day period within which the registry must act on submissions, with agreements deemed approved if no action is taken within that time.

The key provisions of the Law are Articles 15 and 16 which establish the prohibited clauses and prohibited conditions. Some closing articles put fairly sharp teeth into the law by establishing sanctions. The prohibited clauses of Article 15 make three additions and four modifications to the litany of the 1973 law. Information cannot be kept confidential for a period longer than that of the agreement itself. Article 17 permits registration of agreements the terms of which, including obligations of confidentiality, exceed the 10-year cut-off point.

As regards the November regulations, there are first, some procedural arrangements. Then, a new provision creates a basis for information prior consultation with the registry. If the registry issues an opinion it is binding in the registry for fifteen days. Several articles then clarify and limit the subject matter which is registrable under Article 2 of the law. There is along session dealing with computer programs. In the law itself only two words -

"computer programs" - mention this subject. Yet in the regulations there are then articles, which themselves will eventually require regulations, dealing with computer programs. There is then a remarkable provision which permits the registry to grant conditional approvals. This is regulation 37. Finally, the regulations have an extended section interpreting the prohibited clauses and conditions of Articles 15 and 16 of the Law. It is typical in this section of the regulations to give emphasis and greater definition to a prohibited clause or condition in one article and then, in the next article, state a number of exceptions to the prohibition. These exceptions, and there are a number of them worth careful study, go a great distance in recognizing normal armslength commerical dealing. They will provide the registry with a new basis for balanced administration of the 1983 technology transfer law.

The protection of know-how is touched upon in the regulations at several points, but the overall effect is not enough to deal adequately with the serious lack of protection for know-how or trade secrets in Mexico.

Regulation 45-VII seems to give leeway beyond the prohibition of the law to permit some type of enforcement of a know-how protection clause in an agreement. Regulation

51-11, also gives some limited measure of protection with respect to competitive know-how in the hands of the licensee. Article 15-IX of the Law and Regulation 56 are attempts to curtail ordinary contractual protection for confidential know-how. At the same time there is some recognition that certain cases of novel or single source technology may warrant exceptional treatment, permitting the grant of an extended term for confidentiality.

But in all these provisions there remains a failure of remedy in the event confidentiality is breached.

Horacio Rangel O. in his recent article on "Know-how Licensing in Mexico" (supra) covers the Mexican scene very thoroughly and from the trade secrets and know-how point of view and summarizes the Industrias Resistol and Harbison Walker Refractories cases with the conclusion that the courts have taken a more liberal view regarding the ten-year limit on trade secrets duration; and, hence the modification by way of Article 17.

The system in existence in the Andean Pact countries has not yet been liberalized. The question that Latin American nations will face during the decade ahead regarding international licensing is whether they should regulate economic problems through the use of laws on competition, as do most countries in the industrial world, rather than through nationalistic laws dealing with transfer of technology.

V. FRANCE (GERMANY/SWITZERLAND)

A. Introduction

Questions of a theoretical and definitional character, such as, the legal nature of trade secret/know-how, whether or not they are property, etc. are more likely to arise in civil law countries.

Generally speaking, there are two distinct kinds of trade secrets in France: "secret de fabrique" and "secret de commerce", which when taken together roughly equal our trade secret concept.

B. Secret de Fabrique

A "secret de fabrique" has broad scope; it covers broadly any secret manufacturing process and associated secret know-how and equipment. Aaron Wise (id. at 3.12) adopts Roubier's definition as best: "(A) secret de fabrique is any manufacturing process whether or not patentable, having a practical or commercical value, put into operation by a manufacturer and kept secret from his competitors who do not know it."

The secret de fabrique has been anchored in the Penal Code (Art. 418) since the middle of the last century. Interestingly, this article distinguishes between unauthorized communication of a "secret de fabrique" to French nationals

and others and imposes much stiffer fines in the latter case.

The requisite elements of a secret de fabrique are:

(1) It must be secret in a relative sense (i.e. not generally known in France);

(2) It must be in industrial use or suitable for immediate industrial application; and

(3) It must have commercial value or be superior to other industrial processes.

The necessity of concealment if not from everybody, certainly from competitors is stressed in court decisions and courts look closely at the measures taken to protect secrecy.

The term "fabrique" is broadly construed for all purposes and can include a laboratory or a licensee's shop, etc.

A defendant in an Art. 418 action must have been aware of the secret nature and must have acted knowingly.

C. Secret de Commerce

The secret de commerce has no statutory base but is a product of doctrine and case law. Yet it is protected under French law. It is more often characterized by examples than by a precise definition. Examples are:

(1) Information concerning the commercial organization of a company;

(2) The text of confidential commercial contracts;

(3) Internal policy regulations and communications;

(4) Information concerning sales, sales policy, discounts, commissions, sales forecasts, profitability forecasts, etc.;

(5) Financial plans;

(6) Information as to investments;

(7) Legal disputes with employees, clients, etc.

Commercial secrets tend to center around a company's books of account.

D. Know-how

Know-how consists of knowledge and experience, acquired not only for the practical application of a technique but also for the industrial commercial, administrative and financial conduct of an enterprise (Mathely, AIPPI Annuaire, 1972-II, p. 32).

A representative definition - many others during the 1970's. See Wise, id. at 3-32 to 41. Also, scholarly disagreement on the question of whether or not know-how is property.

For proof of possession, especially in a misappropriation situation, courts require precise description and clear possession as of a certain date. Various means and mechanisms exist or have been developed to accomplish this, e.g. withdrawn patent applications, notarized documentation (notarial deeds) and officially registered or recorded

documentation e.g., with a Government Registration Office - microfilm is especially preferred - or with scientific society in a sealed envelope or possible best of all with the Industrial Property Institute in the form of a so called "envelope Soleau".

An "evelope Soleau" (forms therefor are available) is submitted with a modest fee in duplicate in a special envelope (invented by a Mr. Soleau) which upon receipt is mechanically perforated in a special way to make it tamper-proof. One of the two compartments is returned to the sender. Such an "envelope" is valid five years but can be extended for another five years.

One very interesting feature of the French law (since 1968 part of the French Patent Law, Art. 31) is that know-how possessed before another party applies for a patent on the same method or information may continue to be used after the patent comes into effect - "a right of prior, personal and secret possession."

Aricle 31:

> Any person who, on the date of filing or date of priority of a patent application, was, in good faith, in possession of the invention which is the subject-matter of the patent in the territory where the present law is applicable, shall enjoy a personal right to work the invention non-withstanding the existence of the patent.

Unlike in Germany/Switzerland ("Vorbenutzungsrecht"), the know-now or invention need not have been in actual commercial practice or at last in an (advanced) development stage leading to such practice; conception suffices provided it was concrete enough.

Courts have split on whether identity is necessary or whether equivalence is sufficent.

No licenses may be granted.

E. Criminal and Tort Law Aspects

There is no question that unfair competitive acts involving trade secrets/know-how committed by a competitor or potential competitor may form the basis for an action in unfair competition. Therefore, the injured party may elect to bring an unfair competition or tort action before the civil action before the civil or commercial courts rather than criminal charges under Article 418 of the Penal Code, which punishes employees and others for divulging secrets de fabrique of their employer.

Of course, not all unfair competitive acts involving trade secrets/know-how are, at the same time, crimes in French law.

French courts consistenly hold that a former employee is free to use and communicate the general knowledge acquired in his prior employment either in connection with his own business or that of a new employer.

French courts also tend to hold that a company which hires employees of a competitor in order to learn the industrial or commercial secrets of the latter commits unfair competition.

And a company which induces an employee of a competitor to come to work for him knowing - should have known suffices - that he is still bound to the employer-competitor by contract, including a covenant not to compete, commits unfair competition.

As regards damages based on unfair competition the Civil Code merely states that the injured party must be restored to his former position by the tortfeasor. The plaintiff must plead and prove his claim for damages.

There is no summary proceeding for obtaining interlocutory or permanent injunctive relief but the courts, pursuant to a regular civil action, can issue orders in the nature of injunctions. (A TRO statutory provision - of 1963 vintage - is still not in force.)

F. Antitrust and Licensing Aspects

French antitrust or trade regulation law does not really have much application to trade secrets or know-how.

However, there is a relatively new French antitrust Ordinance ('67 vintage) which closely resembles the antitrust provisions (Art. 86 & 86) of the Treaty of Rome.

But Wise concludes (id. at 3-201) "There have been no cases decided to-date involving trade secrets or know-how to any degree that would warrant discussion herein."

As regards licensing, there is nothing unusal to report in terms of impediments or restrictions. Minimum price maintenance would present a problem, which is not unexpected, possibly also tie-ins but not territorial or class of customer restrictions.

Of course, any trade secret or know-how agreement between a foreign domiciliary and a French domiciliary have to be filed with the French Industrial Property authorities and will come to the attention of the customs and tax authorities, the Bank of France, and the foreign investment section of the Ministry of Finance who can voice their displeasure in a number of indirect ways if they find anything objectionable. But an agreement cannot be rejected outright and royalty payments can be sent abroad.

G. Germany/Switzerland/Italy

There is quite similar treatment of trade secrets and know-how in the neighboring Civil Code countries. A thorough review of these countries can be found in several volumes of the Wise treatise.