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Secrets: Case Study of Latvia,  
Present Issues and Perspectives

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# Summary

The topic of this graduate essay is 'Legal Protection of Trade Secrets: Case Study of Latvia, Present Issues and Perspectives'.

The purpose of this thesis is to examine how trade secrets are protected at the international and regional level; to analyze how international requirements are implemented in Latvia as well as to propose feasible improvements in a model of legal protection and regulation of trade secrets in Latvia, which take into account the international requirements.

For many years, there was no need for effective protection of trade secrets in Latvia due to the fact that it was part of the Soviet Union. After the collapse of the Soviet Union, many changes happened in Latvia such as regaining of independence and joining the European Union. These changes had great impact on people's lives in general as well as in the legal area. The question of legal protection of trade secrets became essential. Unfortunately, the system of legal protection of trade secrets, which exists in Latvia, does not fully correspond to international requirements and it is necessary to make amendments in Latvian legal acts.

The essay consists of the introduction, three main parts and final part.

The introduction gives the motivation for the choice of the thesis topic and shows the meaning and relevance of the problem to current jurisprudence. The introduction further articulates the research objective.

Part 1 of this work is sub-divided into two sections. Section 1 introduces the concept of a trade secret and describes its essential features at the international and the regional level. Section 2 discusses the interrelation of trade secrets and know-how.

Part 2 gives an overview and shows the necessity of trade secret protection, discusses connection between trade secret protection and such fundamental human rights as right to work and right to freedom of information, Part 2 also describes the legal rights of a holder of trade secret and specifies trade secret protection methods: security, management and contractual measures before the infringement of trade secret, and civil remedies and criminal penalties after the infringement.

Part 3 of the thesis deals with issues connected with the legal meaning of a trade secret as given in legal acts that are valid in Latvia. Part 3 also describes the legal protection methods of trade secrets that can be utilized in case of trade secret infringement and analyzes how international requirements for protection of trade secrets are implemented in Latvian legislation.

The final part of the work summarizes the conclusions reached in the course of the thesis, and proposes feasible improvements in a model of legal protection and regulation of trade secrets in Latvia, which take into account the international requirements.

# Abbreviations

CAN	Comunidad Andina de Naciones (Andean Community of Nations)
ECHR	European Convention for the Protection of Human Rights and Fundamental Freedoms
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
IPRs	Intellectual property rights
NAFTA	North Free Trade Agreement
NDA	Nondisclosure agreement
Paris Convention	Paris Convention for the Protection of Industrial Property
TRIPS	Agreement on Trade Related Aspects of Intellectual Property Rights
UDHR	Universal Declaration of Human Rights
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

# 1 Introduction

## *The relevance of the topic*

The relevance of the subject matter of this thesis is the increasing importance of trade secrets as a tool for modern companies to achieve competitiveness. We live in the Information age. Nowadays, information has become one of the most important resources without which normal functioning of the society is impossible. Enterprises rely increasingly on intangible or knowledge-based assets for creating and maintaining their competitiveness in the marketplace rather than on tangible or physical assets. Today's business environment has increased the importance of trade secret protection and there is an increasing recognition of the importance of trade secrets and trade secret protection around the world.

In the Information Age, trade secret protection is, in some cases, the most attractive, effective and readily available intellectual property right. Trade secrets provide a viable option for protecting inventions and other information that can provide a competitive advantage in the marketplace as well as they encourage research and innovation. However, the rapid expansion of computer technology and availability of Internet presents new issues in the area of trade secret law, that enhance the risk that trade secrets can be easily misappropriated. Therefore, it is important for trade secrets holders to identify potential risks and take appropriate precautions to minimize those risks.

All commercial activities are closely connected with competition and acquisition of necessary information. Without knowledge about activities of competitors, it is difficult to maintain competitive advantage on the market. It is necessary to ensure effective uniform trade secret protection at the international level as well as at the national level according to international requirements. The lack of effective trade secret protection in foreign countries can have substantially detrimental effects on the holder of the secret.

However, an adequate balance should be sought among interests of trade secret holders and society's interests. Trade secret legal protection is connected and can have a significant impact on observance of such human rights as the right to work and the right to freedom of information.

For a long time trade secret protection did not exist in Latvia because there was no need for it due to the fact that Latvia was part of the Soviet Union. After regaining independence the question of legal protection of trade secrets became essential. Unfortunately, an effective trade secret legal protection mechanism has still not fully been developed in Latvia.

### ***Purpose and outline***

The *purpose* of this thesis is to analyze how trade secrets are protected at the international and the regional level and to propose feasible improvements in a model of legal protection and regulation of trade secrets in Latvia, which take into account the international requirements.

*Outline of the thesis.* The work elucidates the legal meaning of trade secrets and discusses the interrelation of trade secrets and know-how (Chapter 1); gives overview and reasons for the necessity of legal protection of trade secrets as well as describes how such protection is implemented at the international and the regional level (Chapter 2); details how the meaning of a trade secret is specified and analyzes how the legal protection of trade secrets is ensured and how international requirements for protection of trade secrets are implemented in Latvian legislation (Chapter 3).



## **2 THE NATURE AND SUBJECT MATTER OF A TRADE SECRET**

This chapter of the thesis introduces the concept of a trade secret and describes its essential features at the international and the regional level, as well as discusses the interrelation of trade secrets and know-how.

### **2.1 Legal Concept of a Trade Secret and its Essential Features at the International and Regional Level**

A secret is one of those words that are often used in different contexts, it has a common meaning as well as a legal meaning. Generally, a secret is something not known to others. In legal context, a secret means information, which is available to a limited amount of people. There are different types of secrets, for example, state secrets, bank secrets, investigation secrets, trade secrets etc. Secrets are an important intellectual resource.

The term ‘trade secret’ is often used in relation to confidential information associated with industrial and commercial activity.<sup>1</sup>

Trade secrets tend to comprise various classes of valuable commercial information, some of which are unpatentable owing to lack of novelty or nonobviousness (for example, a valuable customer list), and some of which are protected by secrecy, rather than patent law, by choice.<sup>2</sup>

It is necessary to clarify the notion of a trade secret to be able to ensure its legal protection. However, difficult issues can arise whenever it is necessary to identify and define a trade secret. The problems are often a result of the fact that there is no uniform definition of a trade secret accepted around the world.<sup>3</sup> Exactly what constitutes a trade secret has been the subject of continuing debate. The only constant in the law of trade secrets is that the subject matter of a trade secret must retain some degree of secrecy.<sup>4</sup>

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<sup>1</sup> S.K.Verma. ‘Protection of Trade Secrets under the Trips Agreement, and Developing Countries.’//The Journal of World Intellectual Property, Vol. 1, Issue 5, Sep 1998. – p.725

<sup>2</sup> J.Lipton. ‘Intellectual Property in the Information Age and Secured Finance Practice.’//European Intellectual Property Review, 2002, Vol. 24, Issue 7. – p.362

<sup>3</sup> J.Cohen, A.S. Gutterman. Trade Secrets Protection and Exploitation. (BNA Books, Washington, 1998) – p.69

<sup>4</sup> A.D’Amato, D.E.Long (eds.). International Intellectual Property Law. (Kluwer Law International, 1997) - p.21

A trade secret is difficult to identify with precision because, unlike other intellectual property rights, it has been traditionally protected not by registration but by contractual restrictions on use, disclosure or so on.<sup>5</sup>

Trade secret is not subject to a specific test of novelty criterion or non-obviousness as is the technical information that may be protected by patent. Since a trade secret may incorporate data that is in the public domain, one of the main difficulties in characterizing this data as the subject of protection is how to distinguish it from information that is openly accessible for public use.<sup>6</sup>

### **2.1.1 The TRIPS Agreement**

Nowadays, intellectual property and its protection form an increasingly important part of trade. International economic relations between different countries develop constantly, countries engage in various kinds of relations also in the area of intellectual property. Unfortunately, the extent of protection and enforcement of intellectual property rights varies widely around the world. That is why it is necessary to create new internationally agreed rules for intellectual property rights in order to provide adequate protection to intellectual property, including trade secrets.

Agreement on Trade Related Aspects of Intellectual Property Rights was adopted on 15 April, 1994 and it entered into force on 1 January, 1995.<sup>7</sup> This treaty is one of the most comprehensive multilateral agreements on intellectual property. The TRIPS Agreement provides protection to such types of intellectual property as copyright and neighbouring rights, trademarks and geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits and undisclosed information. So undisclosed information is one of the categories of intellectual property as defined in Article 1(2) of the TRIPS Agreement.

Although ‘undisclosed information’ has often been referred to as ‘trade secrets’ or ‘confidential information’, the TRIPS Agreement does not use these terms nor does it provide a definition of ‘undisclosed information’.<sup>8</sup> The difficulty of finding a common and acceptable understanding of what those notions mean favoured the adoption of more neutral terminology that does not characterize the contents of the information, but only its ‘undisclosed’ nature. Furthermore, the term used in the TRIPS Agreement, ‘undisclosed information’ was chosen to avoid referring to an expression linked to given legal system. However, the result may be misleading, because what is protected is not really ‘undisclosed information’ (since, if

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<sup>5</sup> S.K.Verma, *supra* note 1, p.724

<sup>6</sup> F.Abbot, T.Cottier, F.Gurry. The International Intellectual Property System: Commentary and Materials. Vol.1. (Kluwer Law International, Hague, 1999) – p.196

<sup>7</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf) (visited on 10.10.2007.)

<sup>8</sup> UNCTAD-ICTSD Project on IPRs and Sustainable Development. Resource Book on TRIPS and Development. (Cambridge University Press, USA, 2005.) - pp.520-521

no one has disclosed it to anyone, it could not be used at all), but rather information disclosed selectively and under precise conditions.<sup>9</sup>

Article 39 of the TRIPS Agreement does not define what ‘undisclosed information’ consists of. It only specifies the criteria that the information needs to meet in order to be deemed a trade secret.

*Features of a trade secret.* According to Article 39 (2) of the TRIPS Agreement, a trade secret is a type of undisclosed information, which complies with certain criteria:

- Information 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;
- Information has commercial value because it is secret;
- Information has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Therefore, Article 39 of the TRIPS Agreement, requiring Members to protect trade secrets, does not really give a definition of a trade secret, but more a description of a trade secret.

As a result, information must satisfy all above mentioned criteria to be considered a trade secret. For instance, product idea how to make 100 ml long cigarette is not a trade secret because it does not fulfil all the requirements.<sup>10</sup>

Article 39 (2) of the TRIPS Agreement does not stipulate any qualification about the creative or inventive nature of the information, it only requires ‘commercial value’ and secret character. It does not set out either any conditions regarding the fixation of the information for that purpose.<sup>11</sup> Such conditions can be found in some national laws. Article 1711 (2) of NAFTA provides that ‘[a] Party may require that to qualify for protection a trade secret must be evidenced in documents, electronic or magnetic means, optical discs, microfilms, films or other similar instruments’.<sup>12</sup> Requirements of this type may narrow the scope of information eligible for

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<sup>9</sup> D.Gervais. *The TRIPS Agreement: Drafting history and Analysis*. 2. ed. (Sweet & Maxwell, London, 2003) – p. 274

<sup>10</sup> E.I.Klayman, J.W.Bagby, N.S.Ellis. *Irwin's business law: concepts analysis, perspectives*. (Burr Ridge, Irwin, 1994) - p.1047

<sup>11</sup> C.M.Correa. *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement*. (Oxford University Press, 2007) - p.373

<sup>12</sup> <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/texte/chap17.aspx?lang=en#Article1711> (visited on 16.11.2007)

protection, that is why their consistency with Article 39 (2) of the TRIPS Agreement is questionable.<sup>13</sup>

*The first criterion* states that information should not be generally known or easily accessible and the contents of trade secret should not be revealed. However, this requirement should not be narrowly interpreted, because absolute secrecy is not necessary.<sup>14</sup> That is why trade secret can be known not only to its holder, for example, company's owner, but he can tell it to his employees or other persons, concluding with them nondisclosure agreements. Thus, a trade secret will not lose its value. The key question is how widely information must be spread for it to stop being a trade secret.

The first characteristic of a trade secret requires *relative secrecy* of information:

- Firstly, it means, that information should not be in public domain, in other words, it should not be known to unlimited circle of persons. Even though information has commercial value if it is in public domain, it cannot be a trade secret. Nevertheless, in exceptional situations this information can be considered as a trade secret, for example, if in secret is kept the fact that a company is using certain method or equipment and gets profit because of it. Therefore, if some information used by businessman gives him possibility to gain profit and other persons do not know that this information can give advantage, such information can be a trade secret.
- Secondly, information should not be easily accessible, it means that other persons do not have opportunity to get the information easily by proper means. Proper means can include use of independent invention or reverse engineering. Improper means, on the other hand include theft, bribery, industrial espionage, or breach of duty to maintain secrecy.<sup>15</sup>
- Thirdly, disputable question is - can compilations (collections) of generally known data be trade secrets. There are different opinions about it: on the one hand, it is considered that such information can be recognized as a trade secret if it is a new combination of generally known data;<sup>16</sup> on the other hand compilations of generally known data are in public domain

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<sup>13</sup> C.M.Correa, *supra* note 11, p.373

<sup>14</sup> Н. Лебедева. Правовая защита торговых секретов. [N.Lebedeva. Legal Protection of Trade Secrets.] // Патенты и лицензии [Patenti I licenzii, Patents and Licensees] 1992, # 7-8. - p.30

<sup>15</sup> R.Bhala, K. Kennedy. World Trade Law: The GATT-WTO System, Regional Arrangements and US Law. (Lexis Law Publications, Charlottesville (Virginia), 1998.)- p.1088

<sup>16</sup> *For instance*, Практика защиты коммерческой тайны в США: Руководство по защите Вашей деловой информации. [Practice of Trade Secret Protection in the USA: Guidelines for Protection of your Business Information] (Крокус Интернэшнл, Москва, 1993) [Crocus International, Moscow] - p.36.

therefore such information cannot be protected as a trade secret.<sup>17</sup>

Indeed, generally known information must not become unavailable because of someone's whim and if information is known to everyone its commercial value is doubtful. However, if someone discovers that certain compilation of generally known data can give unexpected positive results and afford a competitive advantage, this information can constitute and be protected as a trade secret.

Trade secret status may also be available in situations in which the information consists of ingredients that have all been disclosed to the public, provided that the quantities of each ingredient have not been disclosed and cannot be easily ascertained and it is this secret combination of the ingredients that is of economic value to the holder. In such situations, it is the method of combining the ingredients that produces a product that is superior to that of competitors.<sup>18</sup>

*The second criterion* for information to be a trade secret is a fact that information must have commercial value. Put differently, a trade secret must afford its holder an economic advantage over competitors. This rule makes sense, for there is little social value in protecting commercial information that lacks economic value.<sup>19</sup>

Due to its commercial value, information is useful and can provide its holder an advantage over competitors. The advantage can appear as getting profit from product realization, which was produced using secret technologies. The fact that competitors or other persons are trying to acquire this information shows that it has certain value. It is not necessary for a trade secret create a significant economic advantage, however it is required that the trade secret has more than trivial value.<sup>20</sup>

Commercial value of a trade secret is closely connected with issue of secrecy. In other words, according to the TRIPS Agreement, the fact of the secrecy of the data must provide an advantage to its holder over potential competitors. If the data were made generally available in its specific form, the holder would lose its commercial advantage.<sup>21</sup>

Trade secret can lose its commercial value because of public disclosure or in some situations due to technological development. For example, A knows a trade secret for connecting teletype machines. Nowadays, such trade secret

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<sup>17</sup> R.C. Dorr, C.H. Munch. *Protecting Trade Secrets, Patents, Trademarks and Copyrights*. 2nd ed. (Aspen Law & Business Publishers, N.Y., 1995) – p.50

<sup>18</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.79

<sup>19</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd. *Intellectual Property Law in Cyberspace*. (BNA Books, Washington, 1999) – p.331

<sup>20</sup> J.Cohen, A.S. Gutterman, *supra* note 18, p.95

<sup>21</sup> F.Abbot, T.Cottier, F.Gurry, *supra* note 6, p.197.

has lost its value, because in the communication industry teletypes were replaced by computers and fax machines.<sup>22</sup>

*The third criterion* for information to be a trade secret is that it must be protected by certain means, in other words, trade secret holder should develop and use various protection mechanisms in order to defend the information from third parties.

First two criteria mentioned above characterize ‘trade secret’ from an objective side, on the contrary to the third criterion which describes trade secret from a subjective side. It is very important criterion because if trade secret holder would not undertake reasonable secrecy protective measures, put differently, if trade secret information is not kept in secret, it means it will become generally or easily available. The information available for everyone will lose its commercial value. Therefore, it cannot be longer protected as a trade secret.<sup>23</sup>

Trade secret holder himself is interested in providing security for the information, which can give him competitive advantage. Protection guarantees included in legal acts are not enough for effective trade secret protection. Generally, keeping information secret is a complex (system) of steps developed by trade secret holder depending on surrounding circumstances.<sup>24</sup> He must take care of a trade secret, using different information protection methods, because it is not enough just to call information a trade secret for it to be recognized as such and be entitled of trade secret legal protection. Nevertheless, it is not necessary to use unjustified expensive means for trade secret protection. It is enough with *reasonable steps* for information security.

The protection methods do not have to make disclosure of the secret information impossible, but the measures must be reasonable under the circumstances.<sup>25</sup>

Naturally, to protect a secret which is known only to its holder is easier and less expensive. More difficult is to provide protection for information which is available for a broader circle of persons, for instance, in a big company with many employees.

The three criteria discussed above are primary characteristics of a trade secret concept, which are necessary and sufficient for description of it. These features are interlinked and if information does not correspond at least to one of them such information cannot constitute a trade secret and be protected as such.

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<sup>22</sup> R.Stim, S.Fishman. Nondisclosure agreements: Protect your trade secrets and more. (Nolo Press, Berkeley, 2001) - p.1/4

<sup>23</sup> A.J.McShane, S.E.Smith. ‘Implement An Effective Trade Secret Protection Plan – Before It’s Too Late.’ // Intellectual Property Today, 2003., July - p.16

<sup>24</sup> More about protection methods in the Chapter 3 of the thesis

<sup>25</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.341

As it can be concluded the concept of a trade secret is quite broad, it encompasses any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.<sup>26</sup>

There is no universally accepted definition of a trade secret, therefore, it is impossible to provide exhaustive list of data that can be a trade secret, such list can be endless. Trade secret may take various forms.

The following are just a few examples:

- formulas;
- procedures;
- techniques;
- customer lists;
- models;
- business plans;
- supplier lists;
- marketing plans;
- sales forecasts;
- recipes;
- etc.<sup>27</sup>

Even negative information, such as research options that have been explored and found worthless, can be a trade secret.<sup>28</sup>

Broadly speaking, any confidential business information, which provides an enterprise a competitive edge, may be considered a trade secret.<sup>29</sup>

While it is not possible to define a trade secret precisely, courts in the United States often consider a non-exclusive list of factors to determine whether information is, in fact, a trade secret. These factors include:

1. the extent to which the information is known outside the business;
2. the extent to which the information is known by employees and others involved in the business;
3. the extent of measures taken by the trade secret holder to guard the secrecy of the information;

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<sup>26</sup> R.M.Halligan, R. F.Weyand. The Sorry State of Trade Secret Protection. <http://www.thetso.com/Info/sorry.html> (visited on 20.11.2007)

<sup>27</sup> R.M.Halligan. Trade Secrets and the Inevitable Disclosure Doctrine. <http://www.rmarkhalligan.com/idoctrine.html> (visited on 19.11.2007)

<sup>28</sup> Trade Secrets are Gold Nuggets: Protect Them. // WIPO Magazine, 2002, Issue No.4, April, p.13  
[http://www.wipo.int/freepublications/en/general/121/2002/wipo\\_pub\\_121\\_2002\\_04.pdf](http://www.wipo.int/freepublications/en/general/121/2002/wipo_pub_121_2002_04.pdf) (visited on 22.11.2007)

<sup>29</sup> [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) (visited on 23.11.2007)

4. the value of the information to the holder and to its competitors;
5. the amount of effort or money contributed by the holder to develop the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>30</sup>

## 2.1.2 Notion of a Trade Secret at the Regional Level

### 2.1.2.1 NAFTA

Speaking about trade secret definition at the regional level, it is important to mention North Free Trade Agreement. NAFTA came into effect on 1 January, 1994 as an agreement between the United States, Canada and Mexico.<sup>31</sup>

Article 1711 of NAFTA defines trade secret as information which is secret in the sense that it is not generally known or readily accessible; has actual or potential commercial value because it is secret; and the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.

Therefore, the description of trade secret in NAFTA is very similar to the description of undisclosed information in the TRIPS Agreement. However, according to NAFTA trade secret can be understood broader, because the second feature of a trade secret includes present or potential commercial value.<sup>32</sup>

According to the TRIPS Agreement, the second characteristic of a trade secret is simply commercial value of information. While it might be argued, trade secret description in the TRIPS Agreement should be interpreted broadly, that is why information can have actual or potential commercial value. In other words, as a trade secret can be not only data which is now actively used in business, but also information, which is not currently used, but can be used with profit in the future.

Therefore, it is not necessary for a trade secret holder to derive actual financial benefits in order for the information to be eligible for protection. In fact, trade secret must only give one “an opportunity to obtain an advantage.”<sup>33</sup>

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<sup>30</sup> Restatement (First) of Torts § 757 cmt.b.

<sup>31</sup> [http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/over.aspx?lang=en&menu\\_id=33&menu](http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/over.aspx?lang=en&menu_id=33&menu) (visited on 16.11.2007)

<sup>32</sup> P. A. Padilla Torres. An Overview of International Trade Secret Protection from the International Trade and Investment Perspective <http://www.natlaw.com/pubs/spmxipl4.htm> (visited on 20.10.2007.)

<sup>33</sup> J.Cohen, A.S. Gutterman, *supra* note 3, pp.95-96



### 2.1.2.2 CAN

The Andean Community of Nations is a trade bloc comprising the South American countries. The trade bloc was called the Andean Pact until 1996 and came into existence with the signing of the Cartagena Agreement on May 26, 1969.<sup>34</sup>

The regulations of trade secrets in the countries member to the Andean Community are established in the Decision 486 of 14 September, 2000<sup>35</sup> and internal regulative laws of unfair competition.

Articles 260-266 of the Decision are devoted to regulation of trade secrets. According to Article 260,

‘[a]ny undisclosed information that a natural person or legal entity legitimately holds, that may be used in any productive, industrial or commercial activity and is capable of being passed on to a third party shall be considered a business secret in so far as the said information is:

(a) secret, in the sense that, as a whole or in the precise configuration and combination of its elements, it is not generally known or readily accessible to those who move in the circles that usually handle the information concerned;

(b) of commercial value due to its secrecy; and

(c) made the subject of reasonable measures on the part of its legitimate holder with the view to keeping it secret.’

Thus, the description of the concept of a trade secret is quite similar to the ones included in the TRIPS Agreement and NAFTA.

### 2.1.2.3 The European Union

The European Union does not have any specific legal provisions to protect trade secrets or undisclosed information.<sup>36</sup> Member States have long-standing traditions of protecting trade secrets, however, the approach to protection of trade secrets in the European Union varies widely between different countries.

The existing disparities between the Member States' legal systems are prejudicial to the proper functioning of the Internal Market and prevent an equivalent level of intellectual property rights protection from existing throughout the Community.<sup>37</sup>

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<sup>34</sup> <http://www.comunidadandina.org/endex.htm> (visited on 10.12.2007)

<sup>35</sup> Decision 486 - Common Provisions on Industrial Property (of 14 September, 2000) [http://www.wipo.int/clea/docs\\_new/pdf/en/ac/ac005en.pdf](http://www.wipo.int/clea/docs_new/pdf/en/ac/ac005en.pdf) (visited on 10.12.2007)

<sup>36</sup> P. A. Padilla Torres, *supra* note 32

<sup>37</sup> Preamble (8) of the Directive 2004/48/ec of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights // Official Journal L 157, 30/04/2004 P. 0045 – 0086.

The fact that there are no specific rules about trade secrets in the Treaty Establishing the European Community does not mean that trade secret protection is not important. It is clear from Article 30 and 295 that the treaty recognizes IPRs and thus there is respect for them within its framework.<sup>38</sup> All countries of the European Union are members of the WTO and have implemented to their national legislation standards provided in the TRIPS Agreement. Trade secrets are defined according to international requirements stated in Article 39 of the TRIPS Agreement.

On April 29, 2004, the European Parliament and the Council adopted Directive 2004/48/EC on the Enforcement of Intellectual Property Rights.<sup>39</sup> The Directive is the first act of the Community regulating issues relating to measures and procedures for the protection of intellectual property rights.<sup>40</sup>

The Directive concerns various categories of intellectual property - copyright and related rights, industrial property rights, which fall under the Community regulations.<sup>41</sup>

The Commission explained that at least the following intellectual property rights are covered by the scope of the Directive:<sup>42</sup>

- copyright,
- rights related to copyright,
- *sui generis* right of a database maker,
- rights of the creator of the topographies of a semiconductor product,
- trademark rights,
- design rights,
- patent rights, including rights derived from supplementary protection certificates,
- geographical indications,
- utility model rights,
- plant variety rights,

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<sup>38</sup> M. M. Dabbah. EC and UK Competition Law: Commentary, Cases and Materials. (Cambridge University Press, Cambridge, 2004) - p.201

<sup>39</sup> Directive 2004/48/ec of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights // Official Journal L 157, 30/04/2004 P. 0045 – 0086.

<sup>40</sup> M.Bukowski. Directive on the Enforcement of Intellectual Property Rights. <http://www.ipr-helpdesk.org/newsletter/20/html/EN/IPRTDarticleN10F88.html> (visited on 01.11.2007)

<sup>41</sup> I.Viļuma. Intelektuālais īpašums Eiropas Savienībā. Direktīva 2004/48/EK. [Intellectual Property in the European Union] // Jurista Vārds [Lawyer's Word], 09.08.2005, #29 (384)

<sup>42</sup> Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights. (2005/295/EC) // Official Journal L 94/37, 13.04.2005

[http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2005/l\\_094/l\\_09420050413en00370037.pdf](http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2005/l_094/l_09420050413en00370037.pdf) (visited on 01.11.2007)

- trade names, in so far as these are protected as exclusive property rights in the national law concerned.

Although trade secrets are not directly mentioned, it can be assumed that the Directive covers also them because trade secrets are type of IPRs according to Article 1(2) of the TRIPS Agreement.<sup>43</sup>

Moreover, the Member States can, apart from the categories of rights mentioned, expand the implementation of the Directive's provisions to other areas of legal protection, for instance, against unfair competition.<sup>44</sup>

Overall, the notion of a trade secret is incapable of precise definition; it is usually described through conditions it must satisfy in order to be deemed a trade secret. In many countries, there is no one legal act devoted to definition and protection of trade secrets. In many cases legal acts describe protection mechanism but do not contain definition of a trade secret, its notion develops through court practice.

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<sup>43</sup> I.Viļuma, *supra* note 41

<sup>44</sup> Preamble (13) of the Directive 2004/48/ec of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights // Official Journal L 157, 30/04/2004 P. 0045 – 0086.

## 2.2 Trade Secrets and Know-how

‘Trade secret’ is one of such concepts whose matter and scope is not precisely determined. However, it is important to find out what specific features this concept has and how it can be distinguished from other notions.

Trade secret as independent legal category differs from other types of intellectual property rights with various characteristics, it is possible to draw the line between them in contrast to trade secrets and know-how.

In the previous Subchapter of the thesis meaning and characteristics of trade secret were discussed. In order to compare trade secrets and know-how it is essential to analyze know-how concept and its basic features. However, the purpose of this thesis is not analysis of know-how, therefore, only those aspects which are necessary for understanding trade secret’s category will be considered.

### 2.2.1 Definition of Know-how

At first the term ‘know-how’ was used to identify information which an applicant for a patent deliberately did not mention describing his invention and its meaning was “to know how to use a patent”.<sup>45</sup> Gradually know-how lost its initial meaning and it was understood literary – “to know how, to know how to do”. Know-how became an independent object in business transactions, including also transactions which were not connected with patentable inventions.

The traditional concept of ‘know-how’ encompasses any secret technical knowledge necessary to the optimization of the implementation of an invention as well as information (even if not absolutely secret) that is not directly accessible and represents a value for a third party who ignores it. This information represents a high competitive value for every company, which tries to keep it secret and protected.<sup>46</sup>

There are various know-how definitions in legal theory and court practice. The aspect that they all have in common is that it is considered that know-how consists of knowledge and experience of technical character.<sup>47</sup>

The term ‘know-how’ can be understood in broader and narrower sense.<sup>48</sup>

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<sup>45</sup> Т. Петрова. Коммерческая тайна и ИС. [Т.Petrova. ‘A Trade Secret and IP’] // Интеллектуальная собственность [Intellectualnaja sobstvennostj, Intellectual Property], #8, 2000. - p.62

<sup>46</sup> Identification of "Pre-existing know-how": a Strategic Issue under FP6 [http://www.ipr-helpdesk.org/docs/docs.EN/Identification\\_of\\_pre-existing\\_know-how.html](http://www.ipr-helpdesk.org/docs/docs.EN/Identification_of_pre-existing_know-how.html) (visited on 20.11.2007.)

<sup>47</sup> Ноу – хау и программы ЭВМ. [Know-how and Computer programs] //Изобретательство. Патентное дело. Патентная информация. Реферативный сборник, [Izobretatelstvo. Patentnoe delo. Patentnaja informacija. Referativnij sbornik. Invention. Patent Case. Patent Information. Collection of Essays], #3, 1992. – p.40

- In broader meaning know-how means complex of information obtained through experience or research which has significant commercial value, can be identified and is kept in secret.
- In narrower meaning – all features mentioned above plus one more condition – such information cannot be patented.

Know-how usually is used in narrower sense in jurisprudence. In this meaning know-how is used in the European Community regulations.

Although the Treaty Establishing the European Community<sup>49</sup> does not have special provisions for regulation of intellectual property rights, including trade secrets and know-how, IPRs can be considered in connection with competition law. However, the application of competition rules in the field of intellectual property law has given rise to some controversial issues in the world of competition law. The most important question considering the relationship between competition law and IPRs is the extent to which the existence of IPRs impacts on market power.<sup>50</sup> Application of EC competition rules to IPRs is highly complex. The complexity arises due to several factors, including the close links between the competition rules and the rules on free movement of goods.<sup>51</sup>

As the result, the Commission has adopted various regulations which concern legal regulation of know-how. For instance, such regulations as:

- Commission Regulation (EC) No 2659/2000, of 29 November 2000, on the application of Article 81(3) of the Treaty to categories of research and development agreements;
- Commission Regulation (EC) No 2790/1999, of 22 December 1999, on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices;
- Commission Regulation (EC) No 772/2004, of 27 April 2004, on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

## 2.2.2 Characteristics of Know-how

Know-how is defined in narrower sense as a package of non-patented practical information, resulting from experience and testing, which (information) has following features:

- It is secret, that is to say, not generally known or easily accessible;

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<sup>48</sup> M. Grudulis. Par jēdzienu *know-how* tautsaimniecībā un tiesībās. [Concept of Know-how in Economics and Law// Jurista Vārds [Lawyer's Word], 18.07.2001, #215

<sup>49</sup> [http://eur-lex.europa.eu/en/treaties/dat/12002E/pdf/12002E\\_EN.pdf](http://eur-lex.europa.eu/en/treaties/dat/12002E/pdf/12002E_EN.pdf) (visited on 15.11.2007)

<sup>50</sup> M. M. Dabbah, *supra* note 38, p.199

<sup>51</sup> *Ibid*, p.200

- It is substantial, that is to say, significant and useful for the production of the contract products;
- It is identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality.<sup>52</sup>

### 2.2.3 Interrelation of Trade secrets and Know-how

Taking into account definition and characteristics of know-how it can be claimed that ‘trade secret’ and ‘know-how’ are comparable categories which share a number of common features.

Trade secret has all basic features of know-how, which are secret, substantial and identified information resulting from experience and research. However, the category trade secret includes not only technical data, it can also contain non-technical information used in business such as business plans, transaction strategies, data about customers, employees, sources of supply, advertising information, development plans, product related information and any other information that is likely to be of value to a business in a competitive context.

Know-how consists of technical knowledge, industrial experience and other types of information which are necessary for creating (producing) certain products or technologies.<sup>53</sup>

Therefore, know-how may be viewed as a subcategory of trade secrets. Know-how can be a sale object, goods, investment in legal person’s capital, but these qualities can not be referred to a lot of other data, which can be a trade secret. The subject matter of a trade secret is broader than know-how. A person can store customer lists, personnel data and other information as trade secrets, but these kinds of data cannot be recognized and protected as know-how.

Analysis of legal literature devoted to research on trade secrets shows that the issue of interrelation of trade secrets and know-how is not investigated, there is no precise answer. Furthermore, there are contrary opinions about it. For instance, J.Gromovs writes that the category of trade secret is close to know-how, however, he claims that trade secret is a narrower concept than

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<sup>52</sup> Article 2 (10) of the Commission Regulation (EC) No 2659/2000, of 29 November 2000, on the application of Article 81(3) of the Treaty to categories of research and development agreements; Article 1(1i) of the Commission Regulation (EC) No 772/2004, of 27 April 2004, on the application of Article 81(3) of the Treaty to categories of technology transfer agreements;

<sup>53</sup> В. Шаров. Ноу-хау – объект интеллектуальной собственности. [V.Sharov. ‘Know-how – Object of Intellectual Property.’] // Хозяйство и право [Hozjaistvo i pravo, Economy and Law], 1998. #7 - p.54

know-how.<sup>54</sup> As well as F.Gurry, who divides know-how into two categories:<sup>55</sup>

- first, it refers to disembodied information in the form of technical knowledge of industrial significance which has been built up in one organization and it is not in the public domain, and it can constitute a trade secret since, as a discreet entity of information, it is inaccessible, although identifiable novelty is not required. In this sense, the term relates to “the application of technology in an industrial situation rather than to creativity.” This type of know-how is protectable as a trade secret.
- second, it is embodied in the skill and experience built up by individual employees in relation to the practical implementation of techniques or processes, and “it indicates the way in which a skilled man does his job. Know-how of this kind does not constitute a trade secret.”

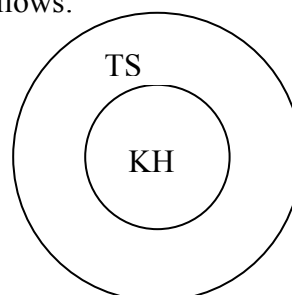
This makes the term ‘know-how’ broader than the term ‘trade-secret’.

Nevertheless, many other authors support opposite point of view. For example, T.Petrova in her article emphasizes that know-how is a type of a trade secret.<sup>56</sup> The same opinion is expressed by A.Kozirev<sup>57</sup> in his book on intellectual property and by M.Grudulis<sup>58</sup> in his article about know-how.

As a result, summarizing the above mentioned, it can be concluded that trade secrets and know-how are closely interlinked, moreover, know-how is subcategory of a trade secret. Using Euler’s circles (diagrams) the relations between these two categories can be depicted as follows:

TS – trade secret

KH – know-how



From this diagram it can be clearly seen that *all know-how are trade secrets, however not all trade secrets are know-how.*

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<sup>54</sup> Ю.Громов. Защита и коммерциализация интеллектуальной собственности. Энциклопедический справочник.[J.Gromov. Protection and Commercialization of Intellectual Property. Encyclopedic Reference Book.] (Экономика, Москва 2003) [Economics, Moscow] – p. 117

<sup>55</sup> F.Gurry. Breach of Confidence. (Clarendon Press, Oxford, 1984) - pp. 90-91

<sup>56</sup> Т. Петрова [T.Petrova], *supra* note 45, p.65

<sup>57</sup> А. Козырев. Оценка интеллектуальной собственности. [A.Kozirev. Evaluation of Intellectual Property] ( Экспертное Бюро-М, Москва, 1997) [Ekspertnoe Bjuro-M, Moskva, Expert Bureau-M, Moscow] – p.21

<sup>58</sup> M.Grudulis. Par jēdzienu *know-how* tautsaimniecībā un tiesībās. [Concept of Know-how in Economics and Law// Jurista Vārds [Lawyer’s Word], 01.08.2001, #216

# 3 LEGAL PROTECTION OF TRADE SECRETS

This chapter of the thesis gives a general description of trade secret protection; explains the necessity of such protection, discusses connection between trade secret protection and such fundamental human rights as right to work and right to freedom of information. It also describes the legal rights of trade secret holder and specifies trade secret protection methods: security, management and contract measures before the infringement of trade secrets and civil remedies and criminal penalties after the infringement.

## 3.1 General Description of Trade Secret Protection

### 3.1.1 Necessity and Overview of Trade Secret Protection

In modern Information age, businessmen should be able to protect not only material valuables, but also information, including trade secrets.

While the information economy has made trade secrets more important, it has also made them more likely to be stolen. A more mobile workforce, the increased use of contractors and consultants, and increased infrastructure outsourcing all provide opportunities for trade secret information to leave the company's control. Information technology itself contributes to the mobility of information. Increasingly, information is stored in easily copied computer files, and Internet connectivity and high-density media such as CD-ROMs make these files easy to transport. A disgruntled employee can literally walk out the door with the company in his pocket.<sup>59</sup>

In today's competitive business environment with so many businesses exploiting innovative products, the intangible assets protected by intellectual property rights law are often the most valuable assets that a business owns.<sup>60</sup> Use of trade secrets and their effective protection can promote competitive advantage of trade secret holder.

Adequate and effective creation, protection, use and management of trade secrets is the starting point on the road to successfully developing and

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<sup>59</sup> The Legal Protection of Trade Secrets. [http://www.ipr-helpdesk.org/documentos/docsPublicacion/html\\_xml/8\\_LegalprotectionofTradeSecrets\[0000002422\\_00\].html](http://www.ipr-helpdesk.org/documentos/docsPublicacion/html_xml/8_LegalprotectionofTradeSecrets[0000002422_00].html) (visited on 20.10.2007)

<sup>60</sup> P.Dobson. Charlesworth's business law. 16<sup>th</sup> ed. (Sweet&Maxwell, London, 1997) - p.685



managing an intellectual property strategy and integrating it into the general business strategy of an enterprise.

Commentators identify three situations when trade secret protection is particularly useful.<sup>61</sup>

- (1) to protect a patentable invention during a patent pendency;
- (2) to protect information related to a patented invention but not covered by that patent;
- (3) to protect information or subject matter that is not patentable or which is only partially patentable (only narrow protection available) or where the party wants to continue to have rights in the subject matter beyond the term available through patenting.

Most businesses have trade secrets. Like other forms of intellectual property, they are valuable commercial assets, which should be protected. However, sometimes the protection is not as stringent as it could be. This is often because the true worth of a trade secret, or an appreciation that certain information amounts to a trade secret in the first place, only becomes obvious once the trade secret has been lost to a competitor.<sup>62</sup>

Every business would like to know its competitors' secrets of success, including any information of commercial value. As confidential information and knowledge increasingly drives business success, companies are honing their policies and practices to safeguard confidential information of commercial value against accidental, inadvertent or wilful misappropriation, misuse, sabotage, loss or theft.<sup>63</sup>

However, the protection of secret, commercially valuable information is not so well established as other forms of intellectual property protection. In many instances, the refusal to grant trade secret protection is based on historical and philosophical reluctance to limit access and use of ideas and information.<sup>64</sup>

Depending on the legal system, the protection of trade secrets either forms part of the general concept of protection against unfair competition or is based on specific provisions or case law on the protection of confidential information. Civil law countries protect interests in undisclosed information under general rubric of unfair competition and the Paris Convention standard of "honest practices in industrial or commercial matters." Common law countries protect undisclosed information under theories of contract and

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<sup>61</sup>A.D'Amato, D.E.Long, *supra* note 4, p.23

<sup>62</sup>J.Lang. 'The Protection of Trade Secrets.' // *European Intellectual Property Review*, 2003., Vol. 25, Issue 10 – p.462

<sup>63</sup>Trade Secrets: Policy Framework and Best Practices. //WIPO Magazine, May 2002- p.17

<sup>64</sup>A.D'Amato, D.E.Long, *supra* note 61, p.96

property.<sup>65</sup> Contract theory typically governs cases involving appropriation of trade secrets in violation of confidential relationship, while property theory covers trade secret appropriations by unrelated parties. For instance, in common law countries such as the United States of America, that treat undisclosed information as property, a trade secret holder can obtain relief not only against the thief or spy itself, but also against third parties who come into possession of the information from him.<sup>66</sup> Civil law countries typically bar relief in these circumstances because the third party has not itself engaged in dishonest practices.

The lack of uniformity in the protection of trade secrets means that prior to disclosure or use of trade secrets in any new foreign market, there must be a careful analysis of a number of factors. For instance, trade secret holder must examine:

- any statutes and if relevant, case law relating to trade secrets in the foreign country;
- any restrictions on contractual clauses with respect to the use and protection of trade secrets;
- cultural factors that might lead to the unwanted dissemination of trade secrets;
- any other local government regulations impacting the technology transfer;
- the enforcement history in the country with respect to trade secret protection laws.<sup>67</sup>

For instance, in 1977, Coca-Cola walked out on its Indian operations in order to protect the 'secret formula' for its soft drink. Coke had been operating in India for twenty-five years, and the Indian market of 550 million potential consumers was a lucrative one. The problem arose because Indian law at that time required transfer of technology held by foreign corporations operating in India to Indian-controlled enterprises. The Indian government demanded that Coke turn over 60 percent of its Indian subsidiary to Indian shareholders and divulge its technology (*i.e.*, the secret formula) or end its operations in India. Coke argued unsuccessfully that its secret formula was a trade secret and not 'technology'. The dispute ended when Coke abandoned its investment in India, at an enormous cost, rather than divulge its trade secret.<sup>68</sup>

During last years, perception of trade secret protection has changed. First, there is no longer 'typical' defendant. Before former employees or competitors used to be guilty of misappropriation of trade secrets.

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<sup>65</sup> P.Goldstein. International Intellectual Property Law: Cases and Materials. (Foundation Press, N.Y., 2001) - pp.548-549

<sup>66</sup> See for example, Uniform Trade Secrets Act (1985)  
<http://nsi.org/Library/Espionage/usta.htm> (visited on 12.11.2007)

<sup>67</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.410

<sup>68</sup> K.A.Magri. International Aspects of Trade Secrets Law.  
[http://www.myersbigel.com/ts\\_articles/trade\\_secret3.htm](http://www.myersbigel.com/ts_articles/trade_secret3.htm) (visited 15.12.2007)

Nowadays, infringer can be anonymous hacker or any Internet user from any country. The Internet is accessible worldwide. Therefore, virtually anyone with Internet access can potentially gain access to trade secret holder's computer system. Second, it is much more difficult to find evidence in trade secret misappropriation cases. It is often possible that after trade secret misappropriation no proof indicating who committed this offence would be found.

Trade secret protection has no duration, no geographical limit. Although many trade secrets in the course of time lose their value, some trade secrets stay undisclosed for many years.

One of the most frequently cited commercial uses of a trade secret is the protection of the secret recipe or formula for Coca-Cola. Though the Coca-Cola Company might have obtained a patent on its formula more than 100 years ago, that patent would have long ago expired, and its competitors would have been free to imitate its formula. By using trade secret protection, the company has maintained a highly profitable advantage over competitors for a very long time.<sup>69</sup>

The formula for Coca-Cola is kept locked in a bank vault that can be opened only by a resolution of the Coca-Cola Company's board of directors. Only two Coca-Cola employees ever know the formula at the same time; their identities are never disclosed to the public and they are not allowed to fly on the same airplane.<sup>70</sup>

At the international level, trade secret protection basics are included in the TRIPS Agreement.<sup>71</sup> Trade secrets were protected under common rules laid down by courts or under unfair competition statutes in many countries before the adoption of the TRIPS Agreement.<sup>72</sup> Prior to the conclusion of the TRIPS Agreement there was no multilateral convention or treaty specifically requiring the protection of undisclosed information, although the general provisions of the Paris Convention for the Protection of Industrial Property<sup>73</sup> regarding unfair competition, stated in Article 10bis, may be understood to require some form of trade secret protection.<sup>74</sup>

Article 39 of the TRIPS Agreement reunites American definitions of trade secrets and the European concepts of unfair competition and honest commercial practices. It is the first multilateral provision on confidential

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<sup>69</sup> . F.Abbot, T.Cottier, F.Gurry, *supra* note 6, p.198

<sup>70</sup> Trade Secret Basics FAQ <http://www.nolo.com/article.cfm/objectID/90781CA8-0ECE-4E38-BF9E29F7A6DA5830/310/119/FAQ/#D6A193A4-C763-46DB-B175A6514AEB0D71> (visited on 23.11.2007.)

<sup>71</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf) (visited on 10.10.2007)

<sup>72</sup> Resource Book on TRIPS and Development, *supra* note 8, pp.520-522

<sup>73</sup> [http://www.wipo.int/treaties/en/ip/paris/trtdocs\\_wo020.html](http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html) (visited on 12.10.2007.)

<sup>74</sup> F.Abbot, T.Cottier, F.Gurry, *supra* note 69, p.196.

information, and it is a good starting point for case law in countries where the legal protection of trade secrets is not yet firmly established.<sup>75</sup>

Speaking about implementation of the international requirements at countries' national level, many countries have adopted special rules about trade secret protection. Trade secrets laws and their application, and therefore also the degree of legal trade secrets protection, differ across countries.

Trade secrets are protected against unauthorized use and disclosure by various statutory means. Some countries have special provisions for the protection of trade secrets either under specific legislation on unfair competition or as part of another law. Other countries treat trade secrets as an aspect of tort law. Various countries have enacted criminal, administrative, commercial or civil law provisions prohibiting the unauthorized use or disclosure of business secrets.<sup>76</sup>

Some countries, however, have differentiated between industrial or manufacturing secrets, such as methods, processes, formulas, or manufacturing systems, and commercial trade secrets, such as customer lists, price lists, advertising methods, and financial data. France protects manufacturing secrets by statutory criminal law, while commercial secrets are protected by an action for unfair competition. Germany, Italy, and Switzerland recognize both industrial and commercial secrets, but do not differentiate between them in terms of legal protection.<sup>77</sup>

The commercial base of a country can be affected by the extent to which its legal system protects trade secrets, along with IPRs. With a weak patent regime, protection of trade secrets assumes great importance. A favourable intellectual property and secrecy regime, like a favourable tax base, can encourage inward investment and industrial innovation and growth, and thus can have a direct effect on the overall well-being of a country. But trade secrets, clubbed with strong patents protection, can have effects on the economy of the country, which will be deprived of all the knowledge and information kept as trade secrets. They have the potential of adversely affecting the trade competition and research and development (R&D) of a country.<sup>78</sup>

The further development of trade secret protection is influenced and will be influenced by country's national legislation and international rules and agreements, as well as case law.

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<sup>75</sup> F.Dessemontet. Protection of Trade Secrets and Confidential Information. <http://www.unil.ch/webdav/site/cedidac/shared/Articles/Protection%20Trade%20Secrets.pdf> (visited on 02.12.2007)

<sup>76</sup> WIPO Intellectual Property Handbook: Policy, Law and Use. 2.ed. (Geneva, WIPO Publication No.489 (E), 2004) - p. 150

<sup>77</sup> A. Beckerman-Rodau. Protection of Intellectual Property – Patent, Copyright, and Trade Secret Law in the United States and Abroad. – [www.law.suffolk.edu/arodau/articles](http://www.law.suffolk.edu/arodau/articles) (visited on 28.11.2007)

<sup>78</sup> S.K.Verma, *supra* note 1, p. 724

### 3.1.2 Balance of interests

Trade secrets are one of several types of intellectual property legal rights established and recognized to protect inventors and creators from having others appropriate the products of their investment in the development of new knowledge and products without compensation to the inventor.<sup>79</sup> Protection of trade secrets encourages research and innovation by providing a legal vehicle for disseminating and using secret information. Without trade secret protection, experienced and informed inventors would be hard pressed to submit their ideas.<sup>80</sup>

Important issue that should be taken into account when implementing trade secret protection at the national level is that an appropriate balance should be sought among the interests of the possessor of secret information and society's (public's) interests.<sup>81</sup>

The law of trade secrets protects certain types of confidential information from wrongful disclosure or use. One of the most difficult issues in trade secret law is how to protect the competing interests in confidential information of employers and employees.<sup>82</sup> In other words, the employer's interest in confidential information must be balanced against an employee's right to use his or her skills to earn a living. Rules for trade secret protection should attempt to strike the balance between these competing concerns.<sup>83</sup> However, a proper balance in certain situations between the competing interests of the employer and the employee is not easy to attain. Whereas employers seek to restrict the disclosure of confidential information, employees find that such restrictions impair their ability to market their skills to new employers.<sup>84</sup>

Too stringent trade secret protection rules may hinder the mobility of personnel in areas where trade secrets are especially relevant (for instance, chemistry industry, software production). Therefore, although it is necessary to provide effective trade secret protection, it is also important not to limit unreasonably employee's right to work and earn a living.

*The right to work* is one of fundamental human rights.<sup>85</sup> Despite the statistical existence of unemployment in every country in the world, work constitutes an essential part of human condition. For many, it represents the

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<sup>79</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.27

<sup>80</sup> N.Hamler. 'The Impending Merger of the Inevitable Disclosure Doctrine and Negative Trade Secrets: Is Trade Secrets Law Headed in The Right Direction?' //25 Journal of Corporation Law 383, 2000. - p.389

<sup>81</sup> C.M.Correa, *supra* note 11, p.373

<sup>82</sup> S.Lowry. 'Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests.' //Stanford Law Review, Vol. 40, No. 2 (Jan., 1988) - p. 519

<sup>83</sup> M.J.Feldman. 'Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship.' // 9 High Technology Law Journal 151, 1994. - p. 152

<sup>84</sup> S.Lowry, *supra* note 82

<sup>85</sup> More about it in A.Eide, C.Krause and A.Rosas (eds.) Economic Social and Cultural Rights. (Kluwer Law International, the Hague, 2001). - pp.223-243

primary source of income upon their physical survival depends.<sup>86</sup> The right to work can be regarded as a prerequisite for protection against discrimination, freedom of association and other economic and social rights of employees.<sup>87</sup> It provides the individual with an element of human dignity as well as providing the remuneration important for securing an adequate standard of living.<sup>88</sup>

According to Article 23 (1) of the UDHR “everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment”. Article 6 of the ICESCR also contains provisions for ensuring the right to work stating that “the States Parties to the present Covenant recognize the right to work, which includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts, and will take appropriate steps to safeguard this right”.

Therefore, overprotection of trade secrets must be avoided as it can lead to the intimidation of employees and impairment in the dissemination of ideas, which will ultimately fetter competition in the market. In many countries the law allows noncompete agreements between employers and employees. By signing such agreement employees agree not to start competing business or not to work for direct former employer’s competitors for certain time period after leaving previous employment. It is essential that national legislation should not provide too broad limitations on employee’s rights to choose work and earn living, however, underprotection of trade secrets is undesirable as well, because innovation will be undermined if an employer’s research can be freely taken and used by its competitors.

The interests of employers and employees is not the only area in which it is necessary to achieve a balance between concurrent interests because of existence of trade secret protection. It is essential to achieve balance between trade secret holder and society’s interests. Inventors should have a sufficient incentive to create and innovate, while ensuring that the consuming public has adequate access to the fruits of their efforts. In of the aforesaid, *the right to freedom of information* should be mentioned. After all, trade secrets are the only form of IPRs where the law rewards the information holder for hiding his or her knowledge from others.<sup>89</sup>

Freedom of information in the international human rights instruments is usually defined as “the freedom to seek, receive and impart information.”<sup>90</sup>

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<sup>86</sup> M.C.R.Craven. *The International Covenant on Economic, Social, and Cultural Rights: A Perspective on its Development*. (Clarendon Press, Oxford, 1998). - p.194

<sup>87</sup> G.Alfredsson and A.Eide (eds.). *The Universal Declaration of Human Rights: A Common Standard of Achievement*. (Martinus Nijhoff Publishers, the Hague, 1999). - p.490

<sup>88</sup> R.K.M. Smith. *Textbook on International Human Rights*. 2 ed. (Oxford University Press, Oxford, 2005). - p.297

<sup>89</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.332

<sup>90</sup> Inger Österdahl. *Freedom of Information in Question. Freedom of Information in International Law and the Calls for a New World Information and Communication Order (NWICO)*. (Iustus Förlag AB, Uppsala, 1992) - p. 38

Most of the main human rights instruments, both universal and regional, protect the right to freedom of information as an integral aspect of the right to freedom of expression.<sup>91</sup>

The United Nations General Assembly declared that “freedom of information is a fundamental human right and... the touchstone of all the freedoms to which the United Nations is consecrated...”<sup>92</sup>

According to Article 19 of the UDHR everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers”.

Trade secret holder is by law provided with the right to keep his confidential information secret. However, sometimes as a secret can be kept information essential for society’s well-being. Trade secret law gives trade secret holders the right to decide to keep information in secret or not.

To sum up, without a doubt it is necessary to ensure an effective protection of trade secrets, but at the same time protection mechanism should be implemented in practice taking into consideration both trade secret holders’ and society’s interests. Existence of trade secret protection should not unreasonably limit fundamental human rights, instead, it should try to achieve a balance between various competing interests as it is stated in Article 7 of the TRIPS Agreement which reads as follows:

“The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and *to a balance of rights and obligations (emphasis added).*”

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<sup>91</sup> Article 19 of UDHR, Article 19 of ICCPR, Article 13 of American Convention on Human Rights, Article 10 of ECHR, Article 9 of African Charter on Human and Peoples’ Rights.

<sup>92</sup> G.A. Res. 59(I), adopted on 14 December, 1946  
<http://www.un.org/documents/ga/res/1/ares1.htm> (visited on 12.11.2007)

## 3.2 Trade Secret and Legal Rights

Trade secrets form one aspect of the intellectual property rights law. The *right to property* is one of the most significant person's basic rights mentioned in Article 17 of the Universal Declaration of Human Rights, which provides that "everyone has the right to own property alone as well as in association with others". Right to property has been recognised as one of the fundamental human rights. Article 1 of Protocol 1 of the ECHR stipulates that "every natural and legal person is entitled to the peaceful enjoyment of his possessions".

The issue if intangible things can be property objects has invoked a lot of discussions among scholars of jurisprudence and legal philosophy. Traditionally only tangible things were considered to be property objects.<sup>93</sup>

The concept of intellectual property rights was created as special legal category to regulate intangible property. Intellectual property is traditionally divided in two branches: industrial property and copyright.<sup>94</sup> Trade secrets belong to the category of industrial property.

There are various opinions in jurisprudence if a trade secret which is an item of information should be treated as property and if a person can have property right in it.<sup>95</sup>

Confidential information and trade secrets are clearly not property in the traditional legal sense relating to physical property.<sup>96</sup> Moreover, describing a trade secret as property can create misleading inferences. The idea of property is itself ambiguous. Describing something as a property right often

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<sup>93</sup> U.Ķiniš (ed.). Informācijas un Komunikāciju tiesības. Autoru kolektīvs. I.sējums. [Information and Communication Law. 1 volume] (SIA „Biznesa augstskola Turība”, Rīga, 2002.) - p.182.

<sup>94</sup> WIPO Intellectual Property Handbook, *supra* note 76, p. 3

<sup>95</sup> See for example, D.D.Friedman, W.M.Landes, R.A.Posner. Some Economics of Trade Secret Law. [http://www.daviddfriedman.com/Academic/Trade\\_Secrets/Trade\\_Secrets.html](http://www.daviddfriedman.com/Academic/Trade_Secrets/Trade_Secrets.html) (visited on 20.10.2007.);

L.Bently, B.Sherman. Intellectual Property Law. 2.ed. (Oxford University Press, Oxford, 2004) – pp.919-920;

M. Zischka, H. Tonner, L. Ing1. Foreign Perspectives on the Patent – Trade Secret Interface. The Canadian Example

[http://www.aipla.org/Content/ContentGroups/Speaker\\_Papers/Spring\\_Meeting/20045/zischka\\_matt.pdf](http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Spring_Meeting/20045/zischka_matt.pdf) (visited on 20.11.2007);

P.Samuels. Is information property? (Legally Speaking). <http://www.ifla.org/documents/infopol/copyright/samp6.txt> (visited on 22.11.2007.)

A.Beckerman-Rodau. 'Are Ideas within the Traditional Definition of Property?: A Jurisprudential Analysis.'// Arkansas Law Review, 47, 1994.

<sup>96</sup> J. Lipton. 'Protecting Valuable Commercial Information in the Digital Age: Law, Policy and Practice' // Journal of Technology Law & Policy, Vol. 6, Issue 1, Spring 2001. - <http://grove.ufl.edu/~techlaw/vol6/issue1/lipton.html> (visited on 19.11.2007)



means that the owner has a legal right to exclude all others from using or exercising control over the property.

Trade secret holder does not possess *exclusive rights*. Information which constitutes trade secret can have more than one holder, a person can disclose this information to others and not lose its right over it. Trade secret cannot be someone's absolute monopoly. The same information can be a trade secret of different persons and all these persons can be legal holders of trade secret. So, it means that discovering a trade secret does not grant its holder exclusive right to this secret.

The fact that according to the TRIPS Agreement<sup>97</sup> the undisclosed information (trade secret) is deemed to be a 'category of intellectual property' does not imply the existence of 'property rights' in undisclosed information. There is only 'possession' or de facto 'control' of that information.<sup>98</sup> Therefore, Article 39 of the TRIPS Agreement refer to a person who is 'in control' of undisclosed information, in clear contrast to the ownership concept used in the sections relating to other categories of IPRs.<sup>99</sup>

Therefore, Article 39 of the TRIPS Agreement does not imply any obligation to confer exclusive rights on undisclosed information, but just to protect it against unfair commercial practices.<sup>100</sup> Strictly speaking, undisclosed information is a mere factual situation, eventually subject, under certain circumstances, to the indirect protection conferred by unfair competition law and to the contractual conditions laid down by the relevant parties to preserve its secret character or implement its transfer.

Indeed, there are opposite opinions in legal literature and some authors consider that trade secret holder has exclusive right over it.<sup>101</sup> These opinions are incompatible with the idea of exclusive rights.

Although Article 39 (2) does not explain the nature of the rights to be conferred to trade secret holder, it indicates which are the acts that holders of undisclosed information should be entitled to prevent.<sup>102</sup> These acts are:

- disclosure;
- acquisition;
- use

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<sup>97</sup> Article 1(2) of the TRIPS Agreement

<sup>98</sup> Resource Book on TRIPS and Development, *supra* note 8, p.527

<sup>99</sup> For instance, Articles 16 (1) and 28 (1) which refer to the "owner" of a trademark and of a patent.

<sup>100</sup> C.M.Correa, *supra* note 11, p.368

<sup>101</sup> For instance, A.Sergejev, V.Kaljatin in. Э. Гаврилов. Коммерческая тайна и результаты интеллектуальной деятельности. [E.Gavrilov. Trade Secret and results of intellectual activity] // Патенты и лицензии [Patenti i licenzii, Patents and licences] #4, April, 2002. – p.22

<sup>102</sup> C.M.Correa, *supra* note 100, p.370

of the information by others provided that such acts take place without the holder's consent and "in a manner contrary to honest commercial practices."

This clearly indicates that the right to prevent such acts only arises when the means used are condemnable. It is the 'unfairness' or 'dishonesty' in using the secret information that requires remedy.<sup>103</sup> Put differently, there is no absolute protection against non-authorised disclosure, against acquisition and use of information, but only against acts made in a condemnable manner.<sup>104</sup>

In trade secrecy, the right to exclude others depends on the secrecy maintained by the holder of the secret and by the confidentiality he or she imposes on those to whom the secret is revealed. Therefore, it does not preclude independent discovery and subsequent use.<sup>105</sup>

If something is to be discovered at all, very likely it will be discovered by more than one person.<sup>106</sup> Due to the fact that the holder of a trade secret does not have an absolute monopoly on the information or data that compose it, he cannot stop other people from discovering the trade secret by allowed means, for instance, by independent invention or reverse engineering.

### ***Independent invention***

Trade secrets may be independently discovered by a competitor irrespective of the fact that a trade secret holder has taken reasonable precautions to protect secrecy.<sup>107</sup> Anyone who creates the same secret information independently, even if it is identical to someone's else trade secret is free to use and disclose that information.<sup>108</sup>

For instance, company A and company B sell competing after-shave products. Company A creates a database that compares different brands of after-shave advertising and resulting annual sales. A uses this trade secret information to determine how to allocate its advertising budget. Company's B director independently creates a similar database and publishes it in a business book. Company's A information is not a trade secret anymore because it is generally known.<sup>109</sup>

### ***Reverse engineering***

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<sup>103</sup> D.E.Long, A.D'Amato. A Coursebook in International Intellectual Property. (West Group, American Casebook Series, St.Paul, Minn., 2000). - p.278

<sup>104</sup> Resource Book on TRIPS and Development, *supra* note 8, p.528

<sup>105</sup> J. Lipton, *supra* note 96

<sup>106</sup> E.Linek. A Brief History of Trade Secret Law, Part 2 - p.2

<http://www.bannerwitcoff.com/articles/briefhistory2.pdf> (visited on 23.11.2007)

<sup>107</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.345

<sup>108</sup> R.Stim, S.Fishman, *supra* note 22, p.1/9

<sup>109</sup> *Ibid.*

Another allowed method of discovery of trade secret is reverse engineering. Reverse engineering is starting with the known product and working backward to find the process which aided in its development or manufacture.<sup>110</sup> In other words, it means the practice of taking something apart to determine how it was made or manufactured.<sup>111</sup>

The acquisition of the known product must, of course, also be by a fair and honest means, such as purchase of the item on the open market, for reverse engineering to be lawful.<sup>112</sup>

Trade secrets that were discovered by reverse engineering can be freely used. For instance, A and B are competing enterprises selling after-shave products. A creates a new cologne with an odour of cigarettes. The formula for the cologne is a trade secret. B purchases a bottle of the cologne; one of B's chemists examines the product, discovers the formula and publishes it on the Internet. Therefore, this information (the cologne formula) loses its trade secret status and A cannot claim anything because the formula was legally discovered.<sup>113</sup>

Due to the fact that a trade secret holder by keeping information as a trade secret deprives others of certain valuable knowledge, discovery of trade secret by proper means is encouraged.<sup>114</sup>

Taking into account high risk of losing trade secret, it is advisable to make use of trade secret protection in the following circumstances:<sup>115</sup>

- when the trade secret is not protectable by any other intellectual property right;
- when the likelihood is high that the information can be kept secret for a considerable period of time. For instance, if the secret information consists of a patentable invention, trade secret protection would be appropriate if the secret can be kept confidential for over 20 years (period of protection of a patent) and if others are not likely to come up with the same invention in a legitimate way;
- when the trade secret is not considered to be of such great value to be deemed worth a patent;
- when the new information does not need to be put on the market at the time of its exploitation, e.g. when the secret relates to a manufacturing process rather than to a product, as products are more likely to be reverse engineered.

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<sup>110</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.343

<sup>111</sup> E.Linek, *supra* note 106

<sup>112</sup> E.Linek. A Brief History of Trade Secret Law, Part 1  
<http://www.bannerwitcoff.com/articles/briefhistory1.pdf> (visited on 23.11.2007.)

<sup>113</sup> R.Stim, S.Fishman, *supra* note 22, p.1/10

<sup>114</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 110

<sup>115</sup> The Legal Protection of Trade Secrets. [http://www.ipr-helpdesk.org/documentos/docsPublicacion/html\\_xml/8\\_LegalprotectionofTradeSecrets\[0000002422\\_00\].html](http://www.ipr-helpdesk.org/documentos/docsPublicacion/html_xml/8_LegalprotectionofTradeSecrets[0000002422_00].html) (visited on 20.10.2007.)

However, information does not lose its trade secret status just because there is a possibility that someone could discover a trade secret by reverse engineering or independent invention. Until it happens, information is a trade secret.

Thus, in contrast with other types of industrial property such as patents, trademarks etc, whose owners have exclusive rights, regarding trade secrets there is only factual monopoly, which includes the right to store information in secret and protect it from illegal acquisition, disclosure and use. There is no legal monopoly on trade secret that is why anyone who in good faith – independently from trade secret holder obtains this information can use it for his own profit and his actions are not illegal.

Still trade secret holder is protected if other persons obtain his confidential information illegally. The nature of a trade secret is that its holder can hide his trade secret from other persons and demand that they refrain from attempts to get it by improper means.<sup>116</sup> It means that:

- Firstly, trade secret holder has the right and at the same time the duty to ensure trade secret protection with his actions, aimed at preservation of confidentiality;
- Secondly, trade secret holder has the right to demand that other persons do not try to find out his confidential information with illegal methods, so it is not about absolute prohibition to use information without its holder's permission, because trade secret holder has no absolute monopoly over it, but it is prohibition to endanger his factual right with improper means.

Therefore, taking into account these considerations countries adopting legal acts concerning trade secrets regulation should provide trade secret holder with the right to ask for protection against trade secret misappropriation but not with exclusive right over a trade secret.

Article 39 (2) of the TRIPS Agreement makes clear that there is no requirement to establish exclusive rights, as such rights are not provided for in the context of unfair competition. Instead, Member States may impose civil or criminal sanctions, as it is the case in many jurisdictions.<sup>117</sup>

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<sup>116</sup> T. Петрова [T.Petrova], *supra* note 45, p.63

<sup>117</sup> C.M.Correa, *supra* note 11, p.370

### 3.3 Trade Secret Protection Methods

According to international requirements one of trade secret characteristics – for information to qualify as a trade secret - is that it must be protected by certain means, in other words, trade secret holder should develop and use various protection mechanisms in order to defend the information from competitors. Without such precautions, there is no indication that the holder has a real interest in keeping the information secret.

Trade secrets are easily misappropriated because they represent nothing more than information, which can be memorized, e-mailed or copied onto some tangible medium and then quietly removed from company premises.<sup>118</sup>

Trade secret holders have a duty to keep their trade secrets secure. Just how rigorous the protection measures need to be will vary with the value of the trade secret. Indeed, the extent of the measures is a factor in determining the existence as well as the value of the trade secret.<sup>119</sup>

However, the law does not require such precautions to be perfect. In particular, it does not require the holder to guard against unanticipated, undetectable, or unpreventable methods of espionage that are very costly or even impossible to prevent.<sup>120</sup>

The protection of trade secrets requires a security program involving affirmative action. When judging a trade secret dispute, courts look at the steps taken by a company to protect its trade secrets from outside disclosure. The measures necessary to protect trade secrets today are frequently more extensive than those considered adequate to maintain confidentiality during the 70s.<sup>121</sup>

There is no government registration process in any country of the world that forces enterprises to reveal their confidential business information to the authorities in order to obtain trade secret rights. Therefore, the cost of protecting trade secrets is largely the cost of putting in place an information security and protection policy and program in the company and the cost of

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<sup>118</sup>Trade Secrets Protection. A Primer and Desk Reference for Managers and in House Counsel. –p.4  
[http://www.fenwick.com/docstore/Publications/IP/Trade\\_Secrets\\_Protection.pdf](http://www.fenwick.com/docstore/Publications/IP/Trade_Secrets_Protection.pdf) (visited on 15.12.2007)

<sup>119</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.340

<sup>120</sup> S.Bechtold, F.Höffler. ‘An Economic Analysis of Trade-Secret Protection in Buyer-Seller Relationships’. October, 2007. – p.6 <http://ssrn.com/abstract=1028478> (visited on 12.11.2007)

<sup>121</sup> R.N.Coe. ‘Keeping Trade Secrets Secret.’// 76 Journal of the Patent and Trademark Office Society, November, 1994. – p.833

monitoring, surveillance, audit and legal measures against insiders or outsiders who breach or try to breach the security system.<sup>122</sup>

Protection methods can be divided into two groups:

- *before the infringement of a trade secret* – preventive means such as security, management and contractual measures.
- *after the infringement of a trade secret* – legal means such as civil remedies and criminal penalties.

### 3.3.1 Preventive Measures

#### 3.3.1.1 Security measures

At first, it is possible to protect a trade secret from disclosure or misappropriation using not legal means, for example, maintenance of security, in order to prevent access to confidential information. Security measures are minimum protection means which should be used by trade secret holder. As well, courts, considering cases on trade secret misappropriation, firstly will check if trade secret holder used necessary safety measures.

Companies often overlook the most obvious measures, which should be taken. The protection offered by walls, fences, safes and guards should be considered based on the nature of a trade secret and those who must have access to the trade secret. The cost, including a few locks, keys, safes and some rubber stamps, is often trivial compared to even one day of litigation.<sup>123</sup>

Security measures can include, for example:<sup>124</sup>

- Classifying and labelling certain documents as trade secrets;
- Restricting access to certain materials or areas;
- Limiting disclosures within the company only to those individuals who need the trade secrets in order to perform their jobs properly;
- Implementing badge or other electronic monitoring system;
- Restricting access to computers, copiers, fax machines, trash containers;
- Performing security checks of employees, visitors and others with access to trade secrets;
- Etc.

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<sup>122</sup> Trade Secrets: Policy Framework and Best Practices.//WIPO Magazine May, 2002 - p.17

<sup>123</sup> R.N.Coe, *supra* note 121, p.835

<sup>124</sup> J.Cohen, A.S. Gutterman, *supra* note 3, pp.89-90

Such security measures are viewed positively by courts as indicia of the existence of trade secrets and the reasonableness of the efforts to maintain them.<sup>125</sup>

It can be necessary to take additional steps in specific areas, or with respect to specific kinds of information, such as limiting or monitoring the copying of documents or data in particular departments, prohibiting the removal or distribution of certain kinds of documents outside of a specific location, or prohibiting or limiting an employee from copying or working on company materials on their home computers.<sup>126</sup>

Trade secret protection should be ensured both inside and outside of the enterprise. Outside protection is connected with measures towards customers, business partners, consultants, visitors. However, inside protection measures are used in order to protect confidential information from inside threat, in most cases from employee's disclosure. That is why personnel selection is very important. Offering a job to a new employee, (especially if his/her future job duties would be connected with working with confidential information) it is essential to check:

- Where did he work before;
- Why did he quit his previous job;
- Connections with competitors;
- Previous convictions;
- Etc.

However, things that can be easily fulfilled in physical environment are connected with more difficulties in virtual environment, for instance, in case if trade secret holder widely uses computers, e-mails and Internet for information exchange.

### **3.3.1.2 Management measures**

Undoubtedly, together with security measures it is essential to use management means, whose purpose is to identify trade secret information and to limit it from other types of information used in the enterprise. It is necessary to organize paper work secrecy regime inside the enterprise.<sup>127</sup> For example, special rules concerning use of documents containing confidential information should be adopted. These rules can also specify who can use confidential information as well as describe in which situations such information can be used, capacity and order of such use. Moreover, it is important to regulate the storage regime of confidential documents. So,

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<sup>125</sup> G.Peter Albert Jr., Laff, Whitsel and Saret Ltd, *supra* note 19, p.341

<sup>126</sup> Trade Secrets Protection. A Primer and Desk Reference for Managers and in House Counsel. – p.8

[http://www.fenwick.com/docstore/Publications/IP/Trade\\_Secrets\\_Protection.pdf](http://www.fenwick.com/docstore/Publications/IP/Trade_Secrets_Protection.pdf) (visited on 15.12.2007)

<sup>127</sup> M.Grudulis, *supra* note 48

above mentioned precautions can help preserve a trade secret for a longer period of time.

Another purpose of management measures is to help identify a guilty person in case of trade secret disclosure. It is much easier to investigate who is guilty and how trade secret was disclosed because all actions connected with use of confidential information were precisely fixed and can be traced.

### 3.3.1.3 System of measures

In order to obtain trade secret protection, the holder must demonstrate that he pursued an active course of conduct designed to prevent unauthorized disclosure or use of the information.<sup>128</sup>

For more effective protection it is advisable to create a system of various methods which can guarantee inside and outside trade secret protection according to circumstances because protection should be comparable with potential threats.

Programs for protecting trade secrets should, at a minimum, address the following categories: restricting access to trade secrets, regulating nonemployee/company interaction, and maintaining good employer/employee relations.<sup>129</sup>

The substance of the protection system will depend on the type of information the holder wishes to preserve as a trade secret, and the holder will generally need to adopt a variety of security procedures.<sup>130</sup>

An enterprise-wide information security and protection program is essential for the protection of trade secrets. Such a program should have a wider scope, going beyond trade secrecy, to protect other types of secret information without commercial value, such as medical records of employees, attorney-client communications, etc.<sup>131</sup>

Trade secret holder developing an effective trade secret protection should try to diminish possibility of confidential information leak. Leak threats can have inner or external character.<sup>132</sup> External threats can be a result of dishonest competitors' actions, insufficiently considered dealings with state agencies, nongovernmental organizations, media. Inner threats mostly are connected with company's employees' initiatives.

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<sup>128</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.86

<sup>129</sup> R.N.Coe, *supra* note 121, p.835

<sup>130</sup> J.Cohen, A.S. Gutterman, *supra* note 128, p.87

<sup>131</sup> Trade Secrets: Policy Framework and Best Practices.//WIPO Magazine May, 2002- p.17

<sup>132</sup> И.Бухтерева. Что необходимо знать об обеспечении информационно-коммерческой безопасности предприятия. [I.Buhtereva. What is necessary to know about commercial information security in the enterprise?] // Патентное дело [Patentnoe delo, Patent Case], #9, 2002. – p.24



External actions are aimed at information passive carriers (written documents, cds, dvds, computer hard disks) or at company's personnel (bribes to employees, blackmail, threats).<sup>133</sup>

However, trade secret disclosure more often happens by employee's initiative. Employees typically have much easier access to an employer's trade secrets than outsiders do. As a result, most measures taken to protect trade secrets from misappropriation by the company's own employees should help protect those trade secrets from misappropriation by outsiders.<sup>134</sup>

Employee's motives can be desire to gain profit or to take revenge or both (for example, an employee who was not satisfied with salary, working conditions, work colleagues or a person who had access to trade secret before he got fired). In such cases, an employee can try to sell the trade secret to competitors or try to destroy or modify it. Sometimes however, trade secret disclosure can happen by accident because an employee was not prepared for working with trade secret information.

Nowadays technologies develop very rapidly, new methods for storing and transmitting information appear constantly. The explosive growth of the Internet as a new communication device presents new issues in the area of trade secrets. As the use of computers for information storage by businesses has increased, it has created risks that could potentially cause business owners to lose that information if their employees transmit it over the Internet, or if others, through the use of modems, break into the business's computer systems and access the information.<sup>135</sup> Therefore, trade secret holder should develop extra information protection methods to maintain the confidentiality of his or her information in an electronic environment. For instance,

- Ongoing employee education programs
- Firewalls
- Anti-virus software
- Encryption
- Proper passwords
- Restrict storage of important company data on removable media such as disks, tapes or CDs
- Isolate sensitive data on an in-house computer that is not connected to the Internet or any external network.
- Etc.<sup>136</sup>

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<sup>133</sup> И. Бухтерева [I.Buhtereva], *supra* note 133, p.25

<sup>134</sup> D.P.Martin. 'An Employer's Guide to Protecting Trade Secrets from Employee Misappropriation.' // Brigham Young University Law Review, January, 1993. - p.949

<sup>135</sup> D.G.Majdali. 'Trade Secrets Versus the Internet: Can Trade Secret Protection Survive in the Internet Age?' // 22 Whittier Law Review, 2000. - p.125

<sup>136</sup> A.Beckerman-Rodau. 'Trade Secrets – the New Risks to Trade Secrets Posed by Computerization.' //28 Rutgers Computer &Technology Law Journal 227, 2002.- pp.46-47

### 3.3.1.4 Contractual measures

Trade secret protection is not possible without contractual measures. These measures are necessary in order to prevent a trade secret disclosure by third parties (for example, business partners, investors, consultants) or employees.

When trade secrets have been provided to employees or such third parties as suppliers, consultants, licensees, or outside product testers, contractual barriers are used to prevent further disclosure. In providing information to third parties, this is necessary to maintain the information's status as a trade secret.<sup>137</sup>

Duty not to disclose or use trade secrets results from contractual relations between trade secret holder and a person with access to confidential information.

There are two types of legal contracts that are widely used to help businesses protect their trade secrets:<sup>138</sup>

- nondisclosure agreements;
- noncompete agreements (covenants not to compete).

#### *Non-disclosure agreements*

Nondisclosure agreements (also referred to as confidentiality agreements) are one of the best and most powerful tools, which can be used by trade secret holders for protection of confidential information.<sup>139</sup>

NDA's guarantee a person/organization that confidential information that it is about to be made available to another person/organization, for example under a joint project, will not be revealed to third parties and will possibly be returned to it at the end of the project.<sup>140</sup>

However, under the law of many countries, employees owe confidentiality to their employer even without such agreements due to employee's general duty of loyalty towards the employer.

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<sup>137</sup> M. B. Bixby, C. C. Baughn. Trade Secret Theft and Protection [http://mg.boisestate.edu/MBixby/Trade%20Secret%20Theft%20&%20Protection%20\(final\).doc](http://mg.boisestate.edu/MBixby/Trade%20Secret%20Theft%20&%20Protection%20(final).doc) (visited on 20.11.2007.)

<sup>138</sup> Legal Contracts that Protect Your Trade Secret. <http://www.chillingeffects.org/tradeseecret/resource.cgi?ResourceID=88> (visited on 21.11.2007)

<sup>139</sup> The Legal Protection of Trade Secrets. [http://www.ipr-helpdesk.org/documentos/docsPublicacion/html\\_xml/8\\_LegalprotectionofTradeSecrets\[0000002422\\_00\].html](http://www.ipr-helpdesk.org/documentos/docsPublicacion/html_xml/8_LegalprotectionofTradeSecrets[0000002422_00].html) (visited on 20.10.2007.)

<sup>140</sup> Confidentiality Agreements. <http://www.ipr-helpdesk.org/docs/docs.EN/ConfidentialityAgreements.pdf> (visited on 23.11.2007)

Thus, no contract is required to impose trade secret liability. However, this implied duty only arises when the employee knows or should know given the circumstances that the employer has the intention to keep information confidential.<sup>141</sup>

That is why a well-prepared nondisclosure contract is a necessity for effective trade secret protection.

A nondisclosure agreement is also appropriate whenever trade secrets are licensed to third parties, are provided to suppliers for use during manufacturing process, or are disclosed to joint-venture partners or to potential acquirers or investors.<sup>142</sup>

The term 'nondisclosure agreement' is often used interchangeably with 'confidentiality agreement'. Some argue, however, that the term 'nondisclosure agreements' is to be applied in dealing with third parties, while 'confidentiality agreements' apply to employees.<sup>143</sup>

A nondisclosure agreement - is a contract in which the parties promise to protect the confidentiality of secret information that is disclosed during employment or another type of business transaction.<sup>144</sup> Put differently, the nondisclosure (or confidentiality) agreement is a contract wherein a person or business promises to treat specific information as a trade secret. The contract prohibits them from disclosing the secret to others without proper authorization.<sup>145</sup>

The real purpose of nondisclosure agreement is to create a confidential relationship between a person who has a trade secret and the person to whom the secret is disclosed. People who have such confidential relationship are legally bound to keep the information secret.<sup>146</sup>

A confidential relationship can be based also on oral agreement or can be assumed from actions of the parties; however, it is quite rare case when someone wants to rely on informal kind of agreement because it is going to be much more difficult to prove existence of liability compared to written contract.

Therefore, if a nondisclosure agreement was concluded and a person with whom it was signed uses a trade secret without authorization, trade secret holder can bring an action against this person for violation of agreement.

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<sup>141</sup> The Legal Protection of Trade Secrets. [http://www.ipr-helpdesk.org/documentos/docsPublicacion/html\\_xml/8\\_LegalprotectionofTradeSecrets\[000002422\\_00\].html](http://www.ipr-helpdesk.org/documentos/docsPublicacion/html_xml/8_LegalprotectionofTradeSecrets[000002422_00].html) (visited on 20.10.2007.)

<sup>142</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.116

<sup>143</sup> M. B. Bixby, C. C. Baughn, *supra* note 137

<sup>144</sup> <http://www.nolo.com/article.cfm/catId/1FBE2D95-203C-4D38-9A2A9A60C6FD618/objectId/2ECF62E6-B334-4E83-9A94FA20A3FAFD38/310/119/ART/> (visited on 20.10.2007.)

<sup>145</sup> M. B. Bixby, C. C. Baughn, *supra* note 143

<sup>146</sup> *Supra* note 145

Duty to keep confidentiality arises from the agreement and is based on *pacta sunt servanda principle*.

Confidential agreements may be readily implemented into employment contracts, the signing of such a contract may be a condition of employment. In addition to committing the employee to the protection of the firm's trade secrets, the contract can also stipulate that the employee's obligation to maintain the secret does not end when the company no longer employs him or her.<sup>147</sup>

Nondisclosure agreements can impose confidentiality duties on both sides. For example, party A provides secret information for party B to evaluate and B provides A with secret information about its marketing strategy - both parties are exchanging confidential information. A one-side obligation agreement is used when only one party is making a disclosure, for example, when a trade secret is explained to a contractor or investor.<sup>148</sup>

There are five important elements in a nondisclosure agreement:<sup>149</sup>

- definition of confidential information – it should be specified in the agreement what kind of information is confidential;
- exclusions from confidential information – it is possible that during transaction parties exchange a big amount of information, part of which is not confidential, therefore there is no duty to keep it confidential;
- obligations of receiving party - the receiving party must hold and maintain the information in confidence and limit its use. It should not breach the confidential relationship, induce others to breach it or induce others to acquire the secret by improper means;
- time periods - the receiving party maintain the secret information for a limited period of time, time period can be negotiated. For sure, the party that shared the confidential information is interested in a longer period, but the receiving party prefers a shorter period. In the United States five years is a common, although many companies insist on only two or three years. In European nondisclosure agreements, it is not unusual for the period to be as long as ten years.
- miscellaneous provisions – concluding remarks, common to all types of agreements, for instance, provisions about dispute resolution.

As it was mentioned before, a trade secret holder is not protected from discovery of his trade secret by proper means such as reverse engineering. To some extent, nondisclosure agreements can be used to prevent reverse engineering, at least among parties who signed such agreement.<sup>150</sup> For

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<sup>147</sup> M. B. Bixby, C. C. Baughn, *supra* note 137

<sup>148</sup> <http://www.nolo.com/article.cfm/catId/1FBE2D95-203C-4D38-90A2A9A60C6FD618/objectId/2ECF62E6-B334-4E83-9A94FA20A3FAFD38/310/119/ART/> (visited on 20.10.2007.)

<sup>149</sup> R.Stim, S.Fishman, *supra* note 22, p.3/2

<sup>150</sup> R.Stim, S.Fishman, *supra* note 149, p.1/10.

instance, the party to a nondisclosure agreement cannot reverse engineer the trade secret in order to circumvent the agreement. Still, anyone else (who has not signed a nondisclosure agreement) can freely discover a trade secret by reverse engineering.

### *Noncompete agreements*

After losing scores of valuable employees and trade secrets to competitors, a growing number of employers are requiring employees to sign noncompete agreements.<sup>151</sup>

Conflicts about trade secret misappropriation usually start after termination of employment. During the course of work employer may have to reveal his trade secrets to his employees. But what happens after these employees decide to change work or get fired? They know the trade secrets of their former employer and can disclose it to others, use for getting their own benefit, the employment agreement is not valid anymore and nothing is stopping them. That is why agreements not to compete are very important. Such agreements can protect employer from the situation when his former employees would use confidential information that they found out during employment time.

It is inevitable that the activities of departing employees should be a matter of concern for business enterprises. The information about the enterprise which they take away with them often makes them prime targets for competitors who will profit by that information, or equips them for their own foray into the field of business in competition with their former employers.<sup>152</sup>

By signing a noncompete agreement employees agree not to start competing business or not to work for direct former employer's competitors for certain time period after leaving previous employment.<sup>153</sup> Employee should fulfil this condition and it can give employer extra time during which the trade secret can lose its value due to some other reason. For example, someone else will discover it by proper means and make it generally known. There may also be geographical limitations to the noncompete agreement.<sup>154</sup>

While an ex-employee should not use or disclose his former employer's trade secrets unless authorised to do so, he is however free to exploit general knowledge and skill acquired in the course of his former employment. It is

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<sup>151</sup> <http://www.nolo.com/article.cfm/pg/1/objectId/6293941F-2A55-4AAD-91E6BBF987A2CC81/catId/1FBE2D95-203C-4D38-90A2A9A60C6FD618/310/119/ART/> (visited on 20.10.2007.)

<sup>152</sup> A.Stewart. 'Confidential Information and Departing Employees: The Employer's Options.' // European Intellectual Property Review, 1989, Vol. 11, Issue 3.- p.88

<sup>153</sup> M. B. Bixby, C. C. Baughn, *supra* note 137

<sup>154</sup> G.S.Bacal. Law of Trade Secrets, Noncompetes, and Antipiracy Agreements – A Practical Guide for Businesses and In-House Lawyers. Internet edition, 1996 – <http://azlink.com/lawyers/articles/secrets/htm> (visited on 15.06.2007)

very difficult to draw the line between general knowledge and skill, and trade secrets.<sup>155</sup>

A principle which distinguishes between discrete technical secrets (protectable even in the absence of covenant), incidental information known only to the ex-employee (protectable only by covenant) and general skill and knowledge (unprotectable), places a heavy burden of proof on any previous employer who seeks to rely upon a general obligation of confidence falling within the first of these categories.<sup>156</sup>

Covenants not to compete are also commonly found in agreements relating to the sale of an ongoing business where the buyer, anxious to appropriate the full value of the goodwill associated with the concern, seeks to prevent the seller from establishing a new competitive business.<sup>157</sup>

While in theory noncompete agreements sound as a very effective way to protect trade secrets, there are certain problems in practice, the protection provided by noncompete covenants is often incomplete. First of all such agreements should not unreasonably limit employee's right to work and earn a living. If the employee can work for a competitor without disclosing trade secrets, the covenant will not be enforced. It is important to be aware that courts use a rule of reason in deciding whether a noncompete agreement is legal.<sup>158</sup> In other words, the terms of a noncompete agreement must be reasonable as to the duration, territory, and scope of the activity. A one-year time restriction from a competitor's business is generally regarded as sound.

Another important issue is that not everywhere noncompete agreements are valid. For example, California has state laws that heavily restrict, and in some cases, completely bar noncompete agreements.<sup>159</sup> So, even if trade secret holder had his business in another state, what can he do if his former employee would move to California after termination of employment?

In addition, trade secrets holders whose business involves cooperation with foreign enterprises should remember that regulation of trade secret protection varies from country to country, not in every country noncompete agreements can be used. For instance, noncompete agreements are not valid in Mexico.<sup>160</sup>

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<sup>155</sup> P.Dobson, *supra* note 60, p.687

<sup>156</sup> W.Cornish and D.Llewelyn. *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights*. 6 ed. (Sweet and Maxwell, London, 2007) - p.328

<sup>157</sup> J.Cohen, A.S. Gutterman, *supra* note 3, p.19

<sup>158</sup> Legal Contracts that Protect Your Trade Secret.

<http://www.chillingeffects.org/tradesecret/resource.cgi?ResourceID=88> (visited on 21.11.2007)

<sup>159</sup> <http://www.nolo.com/article.cfm/pg/1/objectId/6293941F-2A55-4AAD-91E6BBF987A2CC81/catId/1FBE2D95-203C-4D38-90A2A9A60C6FD618/310/119/ART/> (visited on 20.10.2007.)

<sup>160</sup> G.S.Bacal, *supra* note 154

An enforceable covenant not to compete must reasonably balance the interest of the employer in protecting its trade secrets with the employee's interest in using her skills and training in future employment. The more specific the covenant is and the more narrowly it is tailored to the employer's needs, the more likely a court is to enforce it. A covenant not to compete is not enforceable if its purpose is to prevent competition rather than to protect the employer's confidential information.<sup>161</sup>

Anyway, use of contractual measures – nondisclosure and noncompete agreements – with employees, licensees, distributors etc is an important part of any trade secret protection program.

To sum up, effective trade secret protection can be ensured only if various types of protection measures are used. Therefore, trade secret holder in order to protect his trade secret needs to use security and management measures as well as contract measures to achieve better result. However, there is no need to exaggerate, more is not always better, that is why trade secret holders should use as many protection measures as it is necessary according to the circumstances.

However, depending on the nature of the trade secrets, a competitor or former employee may be able to take and make use of the secrets without being caught. For example, if the trade secrets involve a timesaving or cost-saving step for a manufacturing process, they could be implemented inside a competitor's facility without the rightful holder's knowledge or suspicion.<sup>162</sup>

### **3.3.2 Measures after the Infringement of a Trade Secret**

Trade secret holder can use preventive measures before the infringement of a trade secret, use of them can help him during litigation as evidence that he took reasonable trade secret protection steps. After the infringement, it all comes down to legal measures, in other words, what kind of protection trade secret holder can expect from legal authorities in case of trade secret illegal misappropriation.

As long as a company has made systematic efforts that are considered reasonable under the circumstances to preserve confidentiality or secrecy, it may take legal measures to redress the misappropriation of almost any kind of information of competitive value.<sup>163</sup>

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<sup>161</sup> D.P.Martin, *supra* note 134, p.961

<sup>162</sup> Trade Secrets Protection. A Primer and Desk Reference for Managers and in House Counsel. –p.4  
[http://www.fenwick.com/docstore/Publications/IP/Trade\\_Secrets\\_Protection.pdf](http://www.fenwick.com/docstore/Publications/IP/Trade_Secrets_Protection.pdf) (visited on 15.12.2007)

<sup>163</sup> Trade Secrets: Policy Framework and Best Practices.//WIPO Magazine May, 2002 - p.17

In most countries trade secret holder has various possibilities for protection of his rights and depending on character of offence protection can be granted through civil remedies or criminal penalties.

Basic requirements for trade secret protection at the international level are included in the TRIPS Agreement<sup>164</sup> and the Paris Convention<sup>165</sup>.

### ***The Paris Convention***

Article 10bis of the Paris Convention states that the countries of the union are bound to assure to nationals of such countries effective protection against unfair competition. Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition. Trade secret misappropriation can be an act of unfair competition.

Protection against unfair competition has been recognized as forming part of industrial property protection for almost a century.<sup>166</sup> The original Paris Convention of 1883 did not contain any specific provision concerning the repression of unfair competition. The Additional Act adopted in 1990 at the Brussels Diplomatic Conference for the Revision of the Paris Convention introduced it in newly inserted Article 10bis.<sup>167</sup>

Article 10bis of the Paris Convention provides the basic framework for trade secret protection against unfair competition.<sup>168</sup> In this context, WIPO has recommended model provisions to address protection of secret information.<sup>169</sup>

Article 10bis(3) contains a non-exhaustive list of three types of acts of unfair competition, namely, acts likely to cause confusion, acts that discredit a competitor, and acts that may mislead the public. There are a number of acts not mentioned in Article 10bis which have been recognized by the courts as unfair practices and which, increasingly, have become the subject of legislative provisions. Of particular interest in this connection is the trend towards explicit protection of trade secrets by express provisions in unfair competition laws.<sup>170</sup>

In order to ensure effective protection against unfair competition as provided in Article 10bis of the Paris Convention countries should protect

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<sup>164</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf) (visited on 10.10.2007.)

<sup>165</sup> [http://www.wipo.int/treaties/en/ip/paris/trtdocs\\_wo020.html](http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html) (visited on 12.10.2007.)

<sup>166</sup> WIPO Intellectual Property Handbook, *supra* note 76, p.130

<sup>167</sup> G.M.C. Bodenhauser. 'Guide to the Application of the Paris Convention for the Protection of Industrial Property' in D.E.Long, A.D'Amato. A Coursebook in International Intellectual Property. (West Group, American Casebook Series, St.Paul, Minn., 2000). - p.352

<sup>168</sup> Resource Book on TRIPS and Development, *supra* note 8, p.534

<sup>169</sup> See Model Provisions on Protection Against Unfair Competition. Articles and Notes. WIPO, Publication #832, Geneva, 1996, p.47-62

<sup>170</sup> WIPO Intellectual Property Handbook, *supra* note 76, p.138



undisclosed information in accordance with Article 39 (2) of the TRIPS Agreement.

Article 39 of the TRIPS Agreement has linked the protection of trade secrets with Article *10bis* of the Paris Convention by stating that: “In the course of ensuring effective protection against unfair competition as provided in Article *10bis* of the Paris Convention (1967), Members shall protect undisclosed information ... and data submitted to governments or governmental agencies ...”<sup>171</sup> It makes it clear that trade secret protection is based on the discipline of unfair competition.

Furthermore, this requirement is binding not only upon the WTO members that are parties to the Paris Convention, but also WTO members not party to the Paris Convention must comply with Article 10bis as provided for under Article 2 (1) of the TRIPS Agreement.<sup>172</sup>

### ***The TRIPS Agreement***

The TRIPS Agreement establishes minimum requirements of intellectual property protection to be provided by each Member of the treaty. Each of the main elements of protection is defined, namely the subject matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.<sup>173</sup>

Thus, the TRIPS Agreement is a minimum standards treaty, which allows its Members to provide more extensive protection of intellectual property if they wish according to Article 1 (1) provided that such protection does not contravene the provisions of this Agreement.

Moreover, the TRIPS Agreement provisions are defined using general terms, therefore countries can choose in what way to provide protection within their own legal system and practice.<sup>174</sup>

Article 39 of the TRIPS Agreement requires Member States of the WTO to provide protection for undisclosed information. This is the first time that the protection of ‘undisclosed information’ (i.e. trade secrets) has been expressly brought under the purview of an international agreement on intellectual property rights.<sup>175</sup>

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<sup>171</sup> S.K.Verma, *supra* note 1, p.723

<sup>172</sup> D.Gervais, *supra* note 9, p.274

<sup>173</sup> A More Detailed Overview of the TRIPS Agreement

[http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (visited on 20.11.2007)

<sup>174</sup> C.Arup. TRIPs - Across the Global Field of Intellectual Property. // European Intellectual Property Review, 2004, Vol. 26, Issue 1 – p.8.

<sup>175</sup> S.K.Verma, *supra* note 171

However, at the time of the TRIPS Agreement's negotiations there were significant differences in comparative law with regard to the scope and modalities of protection of undisclosed information of commercial value.<sup>176</sup>

The inclusion of trade secrets under the realm of the TRIPS Agreement has settled the controversy that surrounded it at the time of negotiations; the developing countries, particularly Brazil, India and Peru, objected to their inclusion. In their view, trade secrets did not constitute a form of intellectual property because they are not 'disclosable' matters, as required for the subject matter of IPRs.<sup>177</sup> The European Community insisted that the protection of trade secrets be subject to unfair competition rules as provided under the Paris Convention. This conception finally prevailed over the consideration of undisclosed information as a form of 'property', as suggested by the United States.<sup>178</sup>

Not surprisingly, given the diversity of legal systems around the world, the precise manner in which such protection is given can vary considerably from Member State to Member State.<sup>179</sup> The TRIPS Agreement does not require that laws for the protection of trade secret take a particular form. National approaches to such protection tend to vary widely.<sup>180</sup>

As it was discussed above undisclosed information in the context of the TRIPS Agreement is not understood as 'property' in traditional sense, but it is required that 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. According to the provisions of the TRIPS Agreement "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 of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.

That is why the right holder can take action in case of disclosure, acquisition or/and use only if these acts were by others without their consent and "in a manner contrary to honest commercial practices." A key element in establishing the existence of unfair competition is what "honest commercial practice" means in this context.<sup>181</sup>

The concept of 'honest' is relative to the values of a particular society at a given point in time.<sup>182</sup> There is no absolute, universal rule to determine

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<sup>176</sup> Resource Book on TRIPS and Development, *supra* note 8, p.522

<sup>177</sup> See GATT Doc, MTN.GNG/NGII/W/57 of 11 December 1989, at p. 8 n. 48; Doc. MTN.GNG/NGII/W/37 of 10 July 1989, at p. 18, n. 46; Doc. MTN.GNG/NGII/W/45 of 27 October 1989, at p. 5, n. X, respectively.

<sup>178</sup> Resource Book on TRIPS and Development, *supra* note 176, p.523

<sup>179</sup> J.Lang, *supra* note 62, p.462

<sup>180</sup> F.Abbot, T.Cottier, F.Gurry, *supra* note 6, p.198

<sup>181</sup> C.M.Correa, *supra* note 11, p.371

<sup>182</sup> Resource Book on TRIPS and Development, *supra* note 176, p.529

when certain practices should be deemed commercially dishonest and hence, unfair. Which practices can be deemed dishonest in relation to undisclosed information will vary among various countries. Different countries can judge certain situations differently, depending on moral standards that the society applies.<sup>183</sup>

Business enterprises face the risk of disclosure of trade secret information not only in their dealings with other businesses, but also in their dealings with governments.<sup>184</sup> There are a number of situations in which businesses are required by law to provide data to state authorities which, if disclosed, might harm their competitive advantage. This includes data submitted in the process of obtaining regulatory approval of new products (for instance, in the pharmaceutical industry), data submitted in the investigation of anti-competitive activities. Article 39 (3) stipulates a specific requirement that governments take steps to protect information submitted for the approval of pharmaceutical and agricultural chemical products.

### *Enforcement of intellectual property rights*

Unlike pre-existing conventions on IPRs, the TRIPS Agreement contains a detailed set of provisions relating to the enforcement of intellectual property.<sup>185</sup> Part III of the TRIPS Agreement is devoted to enforcement of intellectual property rights and its provisions are relevant to protection of trade secrets. It sets out the obligations of member governments to provide procedures and remedies under their domestic law to ensure that intellectual property rights can be effectively enforced, by foreign right holders as well as by their own nationals. In other words, the aim of Part III of the TRIPS Agreement is to ensure that in addition to making available certain rights, countries adopt obligations to permit their effective exercise.

Article 41 of the TRIPS Agreement imposes on Member States duty to ensure that enforcement procedures are available under their national law in order to provide effective protection of intellectual property rights. It is necessary to develop a protection mechanism that includes expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. Furthermore this mechanism should be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for guarantees against their abuse.

Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

The civil and administrative procedures and remedies include provisions on evidence of proof, injunctions, damages and other remedies which would include the right of judicial authorities to order the disposal or destruction of

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<sup>183</sup> C.M.Correa, *supra* note 11, p.372

<sup>184</sup> F.Abbot, T.Cottier, F.Gurry, *supra* note 6, p.198

<sup>185</sup> C.M.Correa, *supra* note 183, p.409

infringing goods. Judicial authorities must also have the authority to order prompt and effective provisional measures, in particular where any delay is likely to cause irreparable harm to the right holder, or where evidence is likely to be destroyed.<sup>186</sup>

According to the Article 44 of the TRIPS Agreement the judicial authorities shall have the authority to issue injunctions, it means to order a party to desist from an infringement, *inter alia* to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.

Article 45 of the TRIPS Agreement is devoted to damages. The judicial authorities should have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity. The judicial authorities may also order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

Section 5 of Part III is devoted to criminal procedures. According to Article 61 Member States should provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Moreover, Member States are allowed to apply criminal procedures and penalties in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.

Criminal penalties can include:

- imprisonment ,
- and / or monetary fines

which are sufficient to provide a deterrent.

To sum up, The TRIPS Agreement provides minimum intellectual property protection standards, including protection requirements for trade secrets,

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<sup>186</sup> Agreement on Trade Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods [http://www.wto.org/english/docs\\_e/legal\\_e/ursum\\_e.htm#nAgreement](http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#nAgreement) (visited on 20.10.2007.)

which countries should follow creating legal protection mechanisms at the national level.

# 4 LEGAL MEANING AND PROTECTION OF TRADE SECRETS IN LATVIA

This Chapter of the thesis deals with issues connected with the legal meaning of a trade secret as given in legal acts that are valid in Latvia. It also describes legal protection methods of trade secrets that can be utilized in case of trade secret infringement and analyze how international requirements for protection of trade secrets are implemented in Latvian legislation.

## 4.1 Legal Meaning of a Trade Secret in Valid Legal Acts of Latvia

Before the issue of trade secrets and their legal protection in Latvia that was part of the Soviet Union was not relevant. For many years, there was no need for effective protection of trade secrets in Latvia due to the fact that during the Soviet times there was no competition as such.

The Soviet Union's attitude towards trade secrets at the state level was negative and was based on assumption that trade secrets are instrument of capitalistic countries, which are used in order to hide real profit achieved avoiding tax payments or through other violations of law.<sup>187</sup>

Until 1940, Latvia had a civil law system. When Latvia became part of the Soviet Union, the perception of legal institutions, legal categories and law itself changed significantly.

After the collapse of the Soviet Union a lot of changes happened in Latvia such as regaining of independence and joining the European Union. Since the beginning of 1990's, Latvia's legal system has proceeded through a transition from the socialist law to the European civil law. This transition had great impact on people's lives in general as well as in the legal area. Many legal categories needed rethinking including trade secrets because many legal concepts were understood differently or did not exist at all during Soviet regime.

### 4.1.1 The Commercial Law

Speaking about trade secret's legal meaning, its definition is included in Article 19 (1) of the Commercial law. According to it, a trade secret is

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<sup>187</sup> А.Бердашкевич. Правовая охрана коммерческой тайны. [A.Berdashkevich. Trade Secret Legal Protection.] // Интеллектуальная собственность [Intelektualnaja sobstvennostj, Intellectual Property], 2003., #5. - p.23

economic, technical or scientific property and in writing or by other means recorded or not recorded data that satisfy following criteria:

- They are part of businessman's enterprise or are directly connected to it;
- They are not generally accessible to third persons;
- They have actual or potential material or non-material value;
- Their coming into the disposition of another person may cause damages to the businessman;
- They have been subject to reasonable steps under the circumstances by the businessman to keep them secret.

Trade secret is property and data which are under special protection regime. Therefore, trade secret's category includes protection object – property and data and protection mechanism itself.

The definition of trade secret included in the Commercial law is an example of unsuccessful wording, the definition is unclear and can be interpreted differently, and moreover the necessity of such definition in the Commercial law is questionable. However, it already is an "improved version" of the definition. Saeima<sup>188</sup> adopted amendments to Article 19 of the Commercial Law on April 22, 2004.<sup>189</sup>

Before the amendments a trade secret was defined as economic, technical or scientific property connected with the businessman's enterprise and in writing or by other means recorded or not recorded information, that have factual or potential material or nonmaterial value, losing which can cause damages to the businessman and that has been subject to reasonable steps under the circumstances by the businessman to keep them secret.

Both definitions characterize trade secret by enumerating its features. Comparison of these two definitions shows that:

- Firstly, a new feature was added as a result of amendments, that property and data should not be generally accessible to third persons. Such feature is essential for understanding the nature of a trade secret. However, legislator has chosen unsuccessful wording. How should the phrase "not generally accessible" be interpreted? Taking into consideration provisions of Article 39 of the TRIPS Agreement which is binding upon Latvia, this feature of a trade secret can be formulated as – property and data that are not generally known or easily accessible.

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<sup>188</sup> Saeima - the 100-seat unicameral Latvian Parliament

<sup>189</sup> Latvijas Vestnesis, 7 May, 2004, #72

- Secondly, before the amendments trade secret was defined as property and information, however, after them, the term ‘information’ was changed to term ‘data’. According to the Information Publicity Law term ‘information’ can be understood as data or complex of data in any technically possible form of fixation, storage or transfer.<sup>190</sup> Therefore, it means that term ‘information’ already includes data recorded in any form. That is why it seems unnecessary to change the term information to data.

Another important issue which needs to be discussed in connection with trade secret definition in Article 19 (1) of the Commercial law is the use of term ‘property’ in the definition. The word ‘*lietas*’ is used in Latvian text. According to Article 841 of the Civil law, ‘*lietas*’ are tangible or intangible property. By its nature trade secret is information that can be recorded or not. Information, which is recorded, for example, in a document or drawing is considered to be tangible property. Obviously, the legislator used the term ‘*lietas* (property)’ in order to point out that trade secrets can be recorded for example in written form as a document and in that way become tangible property. However, it does not seem to be a successful way of defining the nature of a trade secret, especially considering that question of position of information category in classification of property according to Article 841 of the Civil law<sup>191</sup> is not solved until the end in legal theory and practice. Moreover, legal acts should contain precise and clear provisions instead of such rules that can be interpreted ambiguously as Article 19 (1) of the Commercial law.

According to the definition in Article 19 (1) of the Commercial law trade secret’s essence can be expressed in two forms:<sup>192</sup>

- In nonphysical (nonmaterial) form – specific ideas connected with person’s business activities;
- In physical (material) form – documents, schemas or models connected with above mentioned ideas and their implementing in practice.

Latvia’s participation in the WTO<sup>193</sup> and joining the European Union<sup>194</sup> determined that many international treaties (including the TRIPS Agreement) and the European Union legislation became binding for it.

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<sup>190</sup> Article 1 of the Information Publicity Law [Informācijas atklātības likuma 1.pants]

<sup>191</sup> According to Article 841 of the Civil Law, property can be tangible and intangible.

<sup>192</sup> G. Konošonoks. Komerccnoslēpums un tā aizsardzība. [Trade secret and its protection] // Kapitāls, 2003., #2. - p.52

<sup>193</sup> Latvia has been a member of the WTO since 10 February, 1999.

[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm) (visited on 11.12.2007)

<sup>194</sup> Latvia joined the European Union on 1 May, 2004.



The TRIPS Agreement contains description of a trade secret, its main characteristics are enumerated which are necessary and sufficient for information to be considered as trade secret and protected as such.

For sure, the TRIPS Agreement provides only minimum standards for intellectual property including trade secrets legal regulation. Member States are free to choose implementation style of these standards in their legislation. However, it is important to adopt clear rules otherwise foreign companies will not be interested to start their businesses in a country that is member to the TRIPS Agreement but its national legislation lacks clear standards about, for instance, trade secret protection. The definition of a trade secret included in Article 19 (1) of the Commercial law is not precise, can be interpreted differently, possible narrower than it is required in the provisions of Article 39 of the TRIPS Agreement which can lead to situation that some confidential information protected in other country can be not protected in Latvia.

#### **4.1.2 Definitions Included in Other Valid Legal Acts**

Moreover, there are other attempts to define trade secrets in Latvian valid legislation, which differ from the definition included in Article 19 (1) of the Commercial law. It shows that there is no unified terminology in legal acts that can cause confusion.

For instance, the Law “On Accounting”<sup>195</sup> states that for accounting purposes, information and data, which in accordance with valid legal acts must be included in enterprise reports, cannot be a trade secret. Any other accounting information of an enterprise is a trade secret and is accessible only for audits, to the tax administration for verification of the correctness of tax calculations, and to other state institutions in certain situations mentioned in legal acts.

Article 5 (2) of the Information Publicity law speaks about trade secrets as information with restricted access. Article 7 defines a trade secret as information created by a businessman or belonging to a businessman the disclosure of which may significantly negatively influence the competitive ability of the businessman. This definition does not include such important features of trade secret as:

- information should not be generally known or easily accessible – this characteristic cannot be assumed from the phrase – created or belonging to a businessman;
- businessman must take reasonable steps in order to keep information secret.

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<sup>195</sup> Article 4 of the Law “On Accounting” [Likuma “Par grāmatvedību” 4.pants]

Taking into consideration such definition, it can be considered that any information even widely known information can be claimed a trade secret which is absurd. Furthermore, the obligation of a trade secret holder to use some protection measures is not mentioned at all.

To sum up, disputable issue is not only the fact that trade secret's definition is not precise, but also the necessity of such definition in the Commercial law. The Commercial law mostly deals with completely other issues not directly connected to intellectual property rights including trade secrets. Other countries experience shows that question of trade secret definition and legal regulation is rather solved through rules of competition law or labour law. Some countries have adopted separate legal acts devoted to trade secret category. Moreover, a number of countries adopted legal rules for trade secret protection, which do not include trade secret definition. For example, Denmark, Germany, France.

Trade secrets are a new category in legal area for Latvia that is why there is a need for detailed research in legal doctrine and court practise instead of adoption of unreasoned legal rules without adjusting them to peculiarities of legal system of the country.

## 4.2 Legal Protection of Trade Secrets in Latvia, Protection Problems

### 4.2.1 Trade Secret and Exclusive Rights

The question about legal rights which trade secret holder has over it was discussed in Subchapter 3.2 of the thesis. Taking into consideration theoretical arguments, opinions found in legal literature the author concluded that trade secret holder has factual monopoly over trade secret not a legal one therefore there is no reason to believe that trade secret holder has exclusive rights on trade secret. Instead, trade secret holder only has a cause of action against any party who wrongfully appropriates the trade secret.

However, in Latvia according to Article 19 (2) of the Commercial law businessman has *exclusive rights* on trade secret. How should giving such exclusive rights to businessman be understood in the context of trade secret concept?

An exclusive right is a concept which can be interpreted in two ways:<sup>196</sup>

- First meaning – permission to do certain actions. Usually it is granted by state (sovereign). Practically it is a prohibition for others to take certain actions. As synonyms such words as absolute right, license, privilege can be used. This term corresponds to situation when state (sovereign) has a monopoly on something and it can grant someone exclusive right over it (for instance, granting a license for alcohol sale.) It can also be understood as legal monopoly granted by law;
- Second meaning- exclusive right means absolute right, in other words one person's right opposed to all other persons (unknown circle of persons) obligation to refrain from hindering this right (for instance, property right). Term “absolute right” is contrasted to category “relative right” which means one person's specific right opposed to other specific person's obligation.

Exclusive rights are understood as right to forbid that third persons produce, use, sell, import, export, and store products which are identical or similar to objects belonging to other person under exclusive rights.<sup>197</sup>

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<sup>196</sup> M.Grudulis, *supra* note 58

<sup>197</sup> G.Poļakovs. Rūpnieciskā īpašuma aizsardzība. Skaidrošā vārdnīca. [Protection of Industrial Property. Explanatory Dictionary.] (Rīga, 1999) – p.73

As a result, exclusive rights mean that trade secret holder has a possibility to demand that nobody without his permission uses the trade secret. However, this statement is contrary to the concept of a trade secret, because trade secret holder has no right to forbid use of information by persons who discovered it by proper means, however exclusive rights work against any person. Therefore trade secret holder has relative rights over his trade secret, not absolute.

If someone got access to someone else's trade secret, the first person must respect obligations resulting from agreement or specified in legal acts not to disclose and use trade secret. There are relative legal relations between parties and for violation, there is a liability. But there is no need for exclusive rights in order to have liability obligation.<sup>198</sup>

A.Strupišs in his commentaries to the Commercial law<sup>199</sup> explains that the exclusive rights provided for businessman in the Article 19 (2) of the Commercial law mean, that businessman has absolute rights:

- to decide which kind of information has trade secret status and which has not;
- to change information status;
- freely use his trade secret;
- to prohibit anyone else to have access to trade secret, to disclose it or use without his permission;
- to claim protection for his rights.

Similar opinion is expressed by V.Zemļanovs in his book<sup>200</sup>, because he asserts that main provision for claiming trade secret protection is property rights over this trade secret.

Such statements are contrary to legal meaning of trade secret. Without a doubt, trade secret holder – businessman has the right to decide which information is trade secret and which is not, to change information status as well as freely use it, however there is no legal ground to talk about the right to forbid everyone else to use it or disclose it.

Trade secrets are one of industrial property types, which possess certain advantages but at the same time certain disadvantages compared to other types of industrial property. Information can be protected through patents, trademarks, industrial designs etc. A person should decide itself in which situation which protection method can provide result that is more effective.

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<sup>198</sup> Э. Гаврилов. Коммерческая тайна и результаты интеллектуальной деятельности. [E.Gavrilov. Trade Secret and results of intellectual activity] // Патенты и лицензии [Patenti i licenzii, Patents and licences] #4, April, 2002. – p.22

<sup>199</sup> A.Strupišs. Komercedarbības vispārīgie noteikumi. Komerclikuma komentāri. [General Provisions of Commercial Activity. Commentaries on the Commercial Law.] (Rīga, 2003) - p.111

<sup>200</sup> V.Zemļanovs. Komerccnoslēpums un uzņēmējdarbības drošība. [Trade Secret and Security of Commercial Activities.] (Rīga: Jumava, 2005.) -p.54

Trade secret compared to other industrial property types has following main advantages – trade secret protection has no duration, no geographical limit, it exists automatically without registration, that is, trade secrets are protected without any procedural formalities.<sup>201</sup> However, it has certain disadvantages – it is difficult to keep information relative secrecy, legal regulations are unclear and protection is provided only against trade secret illegal disclosure or misappropriation, it cannot be used if someone discovered trade secret by proper means, for instance, by reverse engineering.

Providing exclusive rights for trade secret holder would make trade secret category to be an ‘ideal’ protection mechanism of information, moreover, the patent system that existed for centuries would become unnecessary. Why should a person register its invention for a certain period (in patent case 20 years) and pay for registration procedure if trade secret information can be protected for unlimited time with exclusive rights?! However, it is essential to remember, that information is considered a trade secret and protected as such only if information has been subject to reasonable steps by trade secret holder, to keep it secret. So if protection measures were not used or used not enough and trade secret was disclosed by negligence, exclusive rights cannot be claimed anymore.

The problems appear when trade secret that is protected according to requirements becomes known due to third person’s illegal actions.

According to provisions of the Commercial law that businessman has exclusive rights on its trade secret, businessman can demand that others stop using his trade secret. Exclusive rights are not limited in time, so it means that legislator has granted trade secret holder infinite legal monopoly.

Dishonest businessman can try to use an interesting version – to organize faked trade secret acquisition, its disclosure through third person’s illegal actions and then demand protection of his exclusive rights. As a result, businessman can get time unlimited and protected by law exclusive right and demand that none can use his trade secret, although now it is generally known due to the faked misappropriation and disclosure. It is contrary to idea that after trade secret’s disclosure, disclosed information cannot become trade secret again.

Exclusive rights on trade secret can lead even to absurd situations; it is vividly illustrated with an example in article by M.Grudulis.<sup>202</sup> Negative know-how, in other words, information about how not to do, can also be protected as trade secret. M.Grudulis describes the following situation: before baking bread, it is necessary to wait 10 hours for dough to get ready. It was done like this for many years in all bakeries. One day someone discovers that is actually enough to wait 5 hours and bread quality is the

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<sup>201</sup> Patents or Trade Secrets?

[http://www.wipo.int/sme/en/ip\\_business/trade\\_secrets/patent\\_trade.htm](http://www.wipo.int/sme/en/ip_business/trade_secrets/patent_trade.htm) (visited on 02.12.2007)

<sup>202</sup> M.Grudulis, *supra* note 58

same. Without a doubt, such discovery is know-how. Let us imagine that this information is stolen and it becomes generally known for everyone who bakes bread. Due to the fact that the law grants the person who discovered this information first exclusive right, basing on it he can demand that others must still wait for 10 hours for dough to get ready, although they know that it is enough with 5 hours to get same results. Furthermore, his rights are unlimited in time.

Exclusive rights on trade secrets included in the Commercial law do not comply with international requirements and problems can arise because in other countries exclusive rights on trade secrets are not recognised. It can cause profit losses for Latvian businessmen because they will not be able to compete with foreign businessmen. Existence of such rule in the Commercial law gives the possibility for foreign companies demand legal monopoly for trade secret use, which became generally known, in their home country as the result of someone's illegal actions. Moreover, Latvian companies will not be able to sell their products in foreign markets because prohibition to use certain trade secret will diminish their possibility to compete with foreign products created using information which is not protected by exclusive rights in that country.

To conclude, rule about exclusive rights on trade secret stated in the Commercial law does not comply with international standards and can worsen position of Latvian businesses in the foreign markets and slow down the economic development in the country. It is necessary for trade secret regulation mechanism to be effective and corresponding to international requirements binding to Latvia to exclude this legal rule from the Commercial law.

#### **4.2.2 Trade Secret Legal Protection Measures**

In Latvia as well as in other countries trade secret holder can use various security, management, contract measures in order to protect his trade secret. These measures in detail were discussed in the subchapter 3.3 of the thesis. Preventive measures are more or less similar in different countries, that is why it is more important to analyse protection mechanism provided after infringement of a trade secret which vary from country to country. So civil remedies and criminal penalties in case of trade secret misappropriation and illegal disclosure in Latvia will be discussed further.

Regulations for trade secret protection are included in various legal acts in Latvia.

Trade secret holder has the right to lodge a complaint in court against other person that acquired this confidential information illegally, disclosed it or used in its commercial activities. However, there have not yet been such court cases in Latvia.

In theory, trade secret holder can ask court to order infringer:

- To admit that plaintiff is trade secret legal holder (in case if it is disputed);
- To stop actions which can lead to trade secret disclosure (in case if it has not already happened during violation);
- To pay damages;
- To pay compensation (in case when it is impossible to estimate amount of caused damages).

#### 4.2.2.1 Criminal penalties

An infringer can also face criminal penalties for trade secret misappropriation.

The Criminal Law guarantees relatively strong legal protection for trade secrets.<sup>203</sup> Article 200 of the Criminal law states that a person can be recognized criminally liable for:

- unauthorised acquisition of economic, scientifically technical or other data, which is trade secret, for personal or other person's use or disclosure,
- unauthorised disclosure of above mentioned information to another person for the same purpose,
- stealing of such information.

The Criminal law provides the following criminal penalties for above-mentioned criminal offences:

- imprisonment;
- arrest;
- community service;
- monetary fine.

The penalties provided in the Criminal law are rather strict. Imprisonment term is up to 5 years for unauthorised acquisition and disclosure of trade secret, up to 8 years for trade secret stealing.

In order to establish whether a criminal offence has been committed, we must first establish what the components of that offence are. Existence of *corpus delicti* gives grounds for criminal liability and it is necessary in order to determine criminal offence qualification. According to Latvian criminal law *corpus delicti* includes the following elements:

- object of a criminal offence – interests which are protected by law and which were endangered and harmed because of the committed criminal offence;

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<sup>203</sup> Article 200 of the Criminal law [Krimināllikuma 200.pants]

- objective side of a criminal offence concerns the factual description of the offence in question;
- subject of a criminal offence – a person who committed the offence and is liable for it;
- subjective side of a criminal offence is made up of those elements, which relate to the state of mind of the accused.

The criminal offences described in Article 200 of the Criminal law constitute a crime. Crime's object is economic interests in the area of commercial activities, more specifically information (economic, scientifically technical or other data) which has trade secret status.<sup>204</sup>

In order to commit this crime, an active conduct is necessary (objective requirements):

- unauthorised acquisition of information (by blackmail, bribery etc);
- information disclosure (revealing the information in any way to at least one person);
- information stealing (getting information as a result of theft, robbery, fraud, etc.)<sup>205</sup>

This crime is completed by doing above-mentioned activities; there is no need for consequences to occur that is why this crime has formal *corpus delicti*.<sup>206</sup>

According to subjective requirements this crime can be committed only by direct intent – the perpetrator knew what he was doing, that is he knew that information is someone else's trade secret, knew that his actions are illegal. His intent was directed at misappropriation of trade secret.

Although the penalties in the Criminal law are rather strict, they are directed only at punishment of a person who misappropriated trade secret, but there is no punishment provided for persons who received trade secret from perpetrator and used it knowing that it was acquired illegally.<sup>207</sup>

The necessity to provide punishment for persons who obtain a trade secret knowing that the person, who makes available the secret, or anyone before him, has accessed it illegally should be considered.

Provisions of Article 200 of the Criminal law provide liability for misappropriation of confidential information, but do not solve question

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<sup>204</sup> U. Krastiņš, V.Liholaja, A. Niedre. Krimināllikuma zinātniski – praktiskais komentārs. 3.gr. [Scientifically - Practical Commentary on the Criminal Law, Vol.3] (Rīga: AFS, 2003.) - p.103.

<sup>205</sup> *Ibid*, p.104

<sup>206</sup> U. Krastiņš. Noziedzīgi nodarījumi ekonomikā, II. [Criminal Offences in Economics] (Rīga: LPA, 1999.) - p. 10

<sup>207</sup> M.Grudulis, *supra* note 48



about award of damages. Criminal prosecution of a perpetrator can only give moral satisfaction to the trade secret's holder. Trade secret's holder after misappropriation or illegal disclosure is more interested in receiving compensation for caused damages.

#### 4.2.2.2 Civil remedies

Trade secret's holder can use provisions of:

- the Commercial law;
- the Civil law;
- the Labor law;
- the Competition law

in order to protect his trade secret.

Compensation of damages is one of the main civil remedies used to eliminate consequences of an offence, to restore the injured person's economic position he/she would have been, had the offence not taken place.<sup>208</sup>

In most cases compensation of damages is connected with long and expensive court trial. For sure, trade secret holder can assume to have many difficulties before court will award damages.

There are four conditions according to legal theory which must be fulfilled in order to have basis for claiming damages:<sup>209</sup>

- somebody's illegal actions;
- this person's guilt;
- existence of damages and their amount;
- a causal connection between the illegal act and damages.

That is why, in order to be able to claim damages, trade secret holder must prove the existence of above-mentioned conditions.

Articles 1635 and 1779 of the Civil law include general principles on compensation of damages. According to provisions of Article 1635, "every *delict*, that is every wrongful act per se, as a result of which harm has been caused (also moral injury), shall give the injured person the right to claim satisfaction from the infringer, insofar as he or she may be blamed for such act". Article 1779 states that "everyone has an obligation to compensate damages which were caused by their actions or omissions to act. Therefore,

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<sup>208</sup> K. Torgāns (ed.) Latvijas Republikas Civillikuma komentāri: Ceturtā daļa. Saistību tiesības. [Commentaries on the Civil Law of Latvian Republic. Forth part. Law of Obligations.] ( Rīga: Mans Īpašums, 2000) – p.266.

<sup>209</sup> M. Ozoliņš. Zaudējumu atlīdzība Latvijas civiltiesībās. [Compensation of Damages in Latvian Civil Law ] // Jurista Vārds [Lawyer's Word], 03.04.2001, #203

a person who suffered damages is entitled to receive compensation from the person who caused damages”.

The problem in trade secrets cases is precise evaluation of damages. In order to claim damages in court it is necessary to estimate amount of damages. It is plaintiff's duty to estimate the amount of damages. It should be done in compliance with damage evaluation principles in the Civil law.

Article 1786 of the Civil law specifies three conditions needed to be considered for evaluation of damages:

- the value of principal property and its appurtenances;
- the detriment indirectly caused;
- lost profits.

Article 19 (3) of the Commercial law gives businessman the right to request trade secret protection as well as compensation of damages caused by illegal disclosure or use of trade secret. This legal rule has too general character, it is not precisely specified in what situations trade secret holder can claim damages, how much and from whom.

The provisions of the Labour law are worth paying attention to, because this legal act clearly specify employee's obligation to pay damages to employer in certain situations. Trade secret holder can use the provisions of the Labour law if his/her employee has disclosed confidential information without permission under condition that the employee in question knew that he is not allowed to disclose this information.

According to Article 83 of the Labour law employee has an obligation not to disclose any information brought to his or her knowledge, which is a trade secret of the employer. On the other hand, the employer has a duty to indicate in writing what kind information is to be regarded as a trade secret. Moreover, an employee has a duty to ensure that the above mentioned information related to his work is not directly or indirectly available to third parties.

In connection to this the 19.11.2003 judgment<sup>210</sup> of the Senate Department of Civil Cases of Latvia's Supreme Court should be mentioned. In this case the Supreme Court decided that although the plaintiff's information which was sent from defendant's work computer to the third party was not classified as trade secret in the sense of Article 83 of the Labour law, there are legal grounds to consider that particular information to be confidential, because it was supposed to be used only inside workplace and it was directly connected to plaintiff's commercial activities.

If there is a dispute, an employer has a duty to prove that information was confidential, that an employee was informed about it only because it was

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<sup>210</sup> Case #SKC-546

necessary for fulfilling his work duties and that employee in question used the information for other purposes.<sup>211</sup>

It is much easier to solve a dispute if employer and employee signed an agreement, in which employee's duty to keep information secret during the employment as well as certain period after it is described.

If an employee without good reason does not perform work duties or performs them improperly, or due to other illegal actions has caused damages to the employer, the employee has a duty to compensate the damages caused to the employer.<sup>212</sup> Article 79 of the Labour law gives the employer right to deduct from the employee's salary the compensation for damages caused to him due to illegal actions of the employee.

The Labour law also provides a possibility for employer to protect himself from employee's competitive activities after the termination of employment, in other words to use noncompetitive clause, but only for limited period of time - not more than 2 years.

The Commercial law contains special provisions concerning liability of a commercial agent using information belonging to person he works for. A commercial agent, also after the termination of the commercial agency contract, must not to use or disclose to third persons trade secrets which were entrusted to him or her or of which he or she has become aware in relation to his or her activities for the benefit of the principal.<sup>213</sup> However, the Commercial law has no provisions about the duty of commercial agent to compensate damages in case of trade secret disclosure.

Trade secret can be disclosed also by employees working in state institutions who got to know trade secret through their professional duties (for instance, police officers, public prosecutors, tax inspectors etc.).

For trade secret protection, trade secret holder can use provisions of the Civil law or the Competition law.

Using the Civil law provisions the person can bring a suit based on Article 2391 stating that no one has the right to unjustly enrich himself or herself, harming and at the expense of another person. If a person has suffered damages because of it, he or she may demand the return of the amount the other person has been enriched by. In this case it can also be rather difficult to prove the amount of damages.

The Competition law prohibits unfair competition, which can mean various actions, one of those is the acquisition, use or distribution of trade secret

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<sup>211</sup> M. Rozenblāte. Kas ir komercnoslēpums. [What is a Trade Secret?] // Kapitāls Nr.10, 2000. - pp.65-66.

<sup>212</sup> Article 86 of the Labour law [Darba likuma 86.pants]

<sup>213</sup> Article 60 of the Commercial Law [Komerclikuma 60.pants]

information belonging to another market participant without his consent.<sup>214</sup> In case of violation, the Competition Council may impose on market participant, a fine up to 5 percent of their net turnover during the previous financial year, but not less than 250 lats.<sup>215</sup>

As an example the Competition Council's decision from April 5, 2006 in case #849/05/09 can be mentioned.<sup>216</sup>

On October 12, 2004 the Competition Council received SIA "Baltic Logistic System – Latvija" application about violation of the Competition law provisions on prohibition of unfair competition committed by SIA „AITEO”. In the application "Baltic Logistic System – Latvija" wrote that Mareks Liepa worked in their company from 10.12.2003 till 13.04.2004 as a sales representative and as well as Diāna Lapiņa who worked there from 16.10.2000 till 09.01.2004. Ainārs Mēnesis worked in SIA „Auto noma" which is SIA "Baltic Logistic System – Latvija" subsidiary company as a courier till 13.04.2004. During the period of time from 31.03.2004 till 13.04.2004 Mareks Liepa sent by e-mail to Diānai Lapiņa and Ainārs Mēnesis various types of information, documents and other materials which included SIA "Baltic Logistic System – Latvija" trade secret. SIA "Baltic Logistic System – Latvija" believed that above mentioned persons illegally acquired and distributed its trade secret. Furthermore, these persons transferred the trade secret information and other documents to SIA „AITEO" which is SIA "Baltic Logistic System – Latvija" competitor. Moreover, these persons after termination of employment in SIA "Baltic Logistic System – Latvija" started working in SIA „AITEO", M.Liepa from 20.05.2004, A.Mēnesis and D.Lapiņa from 01.06.2004. Therefore, there is a reason to believe that SIA "AITEO" acquired SIA "Baltic Logistic System – Latvija" trade secret in order to use it in its commercial activities.

Taking into considerations all circumstances of the case, the Competition Council concluded that trade secret belonging to SIA "Baltic Logistic System – Latvija" was protected by various measures and can be considered a trade secret according to valid legal norms. Therefore, the Competition Council decided that SIA "AITEO" is in violation with Article 18 (3) (4) of the Competition law and its actions caused negative consequences for SIA "Baltic Logistic System – Latvija".<sup>217</sup>

Article 21 of the Competition law imposes an obligation to pay damages on market participant who by intent or by negligence violates the certain provisions of this Law.

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<sup>214</sup> Article 18 (3) (4) of the Competition law [Konkurences likuma 18.panta 3.daļas 4.punkts]

<sup>215</sup> Article 19 (2) of the Competition law [Konkurences likuma 19.panta 2.daļa]

<sup>216</sup> [http://www.competition.lv/uploaded\\_files/2006/NE02\\_28\\_0504.pdf](http://www.competition.lv/uploaded_files/2006/NE02_28_0504.pdf) (visited on 03.12.2007)

<sup>217</sup> *More information about this case in Latvian*  
[http://www.competition.lv/uploaded\\_files/2006/NE02\\_28\\_0504.pdf](http://www.competition.lv/uploaded_files/2006/NE02_28_0504.pdf) (visited on 03.12.2007)

In general, trade secret protection regulation in the Competition law is formulated rather successfully; the rules are flexible, which is necessary in order to strengthen in practice regulation for new legal categories such as trade secrets in Latvian legislation.

However, the Competition law as well as the Commercial law cannot solve the issue about compensation of damages. A claim about damages must be brought in court based on the Civil law rules.

With regard to the fact that there is no case law about trade secret infringements in Latvia, an effective mechanism for trade secret protection during court proceedings has not been created. For sure, such cases should be examined in closed sessions.

Article 11 (3) of the Civil Procedure law provides possibility on reasonable request made by case participant or based on court considerations to declare the court sitting or part of it closed if it is necessary to protect state secrets or trade secrets. Only case parties and their representatives are allowed to participate in closed court hearings. However, even in closed session cases the final part of the court judgment is proclaimed publicly. Preservation of secrecy can be favoured if the trade secret is not described in the court decision with too many details. Moreover, it would be helpful if the court would have the right to impose undisclosed duty on case participants. For instance, it is provided in the Swedish Code of Judicial Procedure.<sup>218</sup> Trade secret disclosure can also occur through case materials, because in the beginning of the proceedings court does not know what information is known to each of the parties.

To sum up, it can be concluded that trade secret protection in Latvia is guaranteed by the provisions of the Criminal law and the Competition law. Rules included in the Commercial law have too general character. Issue about compensation of damages which were caused by trade secret illegal disclosure or misappropriation is not solved in practice. It will be difficult for trade secret holder in case of infringement to prove that he fulfilled all the requirements necessary for information to be deemed a trade secret as well as to estimate amount of damages. Therefore, it can be difficult to use the provisions of the Civil law on compensation of damages. Furthermore, it must be kept in mind, that court is going to decide if trade secret holder used enough of reasonable protection measures in order to guarantee information security. On the whole, trade secret protection in Latvia does not fully correspond to the requirements of the TRIPS Agreement, especially about exclusive rights over trade secret included in the Commercial law.

For the time being as well as in the nearest future there is no reason to consider that it is necessary for ensuring more effective protection of trade secrets in Latvia to enact special law which could regulate trade secret

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<sup>218</sup> Article 5 (4) of the Swedish Code of Judicial Procedure. (Rättegångsbalk, SFS 1942:740), <http://www.sweden.gov.se/sb/d/3926/a/27778> (visited on 12.12.2007)

protection. However, there are opposite opinions, for instance, V.Zemļjanovs offers in his book a draft of such law.<sup>219</sup> But his law draft is contrary to legal protection mechanism established in Latvia, because he includes in it criminal penalties such as imprisonment. Such penalties are provided in the Criminal law. Moreover, it is redundant to impose penalties on employees for employer's trade secret disclosure because similar provisions are already included in the Labour Law.

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<sup>219</sup> V.Zemļjanovs, *supra* note 200, pp.223-229

# 5 CONCLUSIONS AND RECOMMENDATIONS

Today's business environment has increased the importance of trade secret protection for business. A growing number of successful enterprises realize that information can be valuable to a company's growth and competitive advantage, and sometimes even its survival. Trade secret protection can also defend a business against tomorrow's competitors such as former employees or customers. Valuable confidential information, knowledge and expertise provide a unique competitive quality that helps businesses attract customers.

Technologies are changing so rapidly that trade secret protection is, in some cases, the most attractive, effective and readily available intellectual property right. However, unlike other types of intellectual property, trade secret protection demands that the subject matter of the trade secret be kept confidential. Therefore, careful consideration of both legal and business factors is essential when deciding whether to rely on trade secrets instead of for instance, patents. Nevertheless, the extremely broad scope of subject matter protectable by trade secrets includes many things that cannot be protected by other intellectual property rights. That is why trade secrets can be used to protect information that fall outside the domain of patent, copyright or trademark law.

However, legal protection of trade secrets is far from complete, trade secret law remains uncertain and subject to uneven application. Still there is no one universally accepted definition of trade secret and trade secret protection regulations vary from country to country. The nature of intangible assets such as trade secrets is a barrier to their protection. They are easily shared; travel effortlessly in people's minds. Although, it is necessary to provide effective trade secret protection, it should not be unreasonable broad because it is essential to achieve a balance between interests of trade secrets holders and interests of society.

Trade secret legal protection is an issue of current importance in many countries, protection mechanism exists in many countries. However, often trade secret protection is not considered important enough. The author considers that in the course of time trade secrets and their protection in Latvia would become an integral part of legal system and Latvian businessmen would broadly use advantages of trade secrets as it is in other countries where trade secrets are effectively used for many years. Lawyers also should pay more attention to legal category of trade secrets.

Nowadays, although trade secrets in Latvia are recognized by law, many issues connected to their regulation were solved unreasonably or were not considered at all. Trade secrets are regulated by rules of various branches of law such as civil law, commercial law, criminal law, labour law etc. Rules on trade secret protection are included in such legal acts as the Commercial

Law, the Competition Law, the Labour Law, the Criminal Law, the Information Publicity Law. In order to guarantee effective trade secret protection it is necessary to adopt amendments to certain valid legal acts.

For example, the issue of unreasonable inclusion of exclusive rights over trade secrets in the provisions of the Commercial law, which are contrary to the essence of trade secret concept. The question of compensation of damages in case of trade secret infringement is also not solved until the end. The legislator should solve these issues deciding about effective trade secret protection.

The meaning of trade secret and regulation of its legal protection in Latvia was analysed in the thesis. Summarizing the results the following statements can be made:

- Trade secret definition provided in Latvian legal acts is not precise and can be interpreted differently;
- The meaning of a trade secret is explained by describing its features;
- There is a criminal liability for illegal actions with trade secrets and penalties in the Criminal Law are rather strict, however, there is no criminal liability for persons who used trade secret knowing that the person, who makes available the secret, or anyone before him, has accessed it illegally ;
- The weakest link in trade secret legal protection is mechanism of compensation of damages. Many problems arise when it is necessary to estimate amount of damages and prove it.

Taking into account the conclusions achieved through writing the thesis and international requirements, the author considers that there is a need of improvements in a model of legal protection and regulation of trade secrets in Latvia. The *feasible improvements* can be:

- Firstly, it is necessary to adopt amendments to the valid Commercial Law and exclude from it the provision which gives trade secret holder exclusive rights over trade secret. The necessity of this amendment is proved in subchapter 4.2.1 of the thesis;
- Secondly, it is necessary to stipulate criminal liability also for persons that use trade secret knowing that someone before him acquired it illegally;
- Thirdly, it is essential to improve damage compensation mechanism in case of trade secret infringement;
- Fourthly, it is necessary to amend the laws of procedure and ensure that courts have right to impose undisclosed obligation upon case participants in order to diminish



possibility of trade secret disclosure because of court proceedings.

Above mentioned *recommendations* can help to improve trade secret regulation mechanism in Latvia, moreover, it will increase the level of trade secret protection and guarantee that trade secret protection is implemented according with international requirements.

Appropriate legislation is only first step towards ensuring trade secret protection. It is necessary to develop corresponding court practice. Trade secret cases require special procedural manner, furthermore, it is essential that judges who work with such cases would be specially educated to deal with trade secret cases.

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