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SWISS CHINESE LAW
ASSOCIATION

**TRADE SECRET
GLOBAL FORUM
(REPORT)**

***11TH SCLA
GLOBAL FORUM***

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**Report on the Global Online Forum on Trade Secrets organized by the
Swiss Chinese Law Association (SCLA) on 27th November 2020 13.00-15.30
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Prepared by Hermann Knott and Martin Winkler, Andersen, Cologne

1. Agenda

13.00-13.10 CET Time

Welcome Remarks by SCLA (Tianze Zhang)

13.10-13.25 CET Time

Slavery of the Workforce (Johnson Kong)

13.25-13.40 CET Time

Public interest perspective in the Trade Secret (Carlos Correa)

13.40-13.55 CET Time

Trade Secret and Innovation (Aleman Marco)

13.55-14.10 CET Time

Expert Panel 1: Public and Private Interests in Trade Secret Protection in the Pandemic

Chair: Hermann Knott

Panelists: Johnson Kong, Aleman Marco, Carlos Correa, Francine Le Péchon-Joubert

14.10-14.25 CET Time

Introduction to the ESG and AML standard in global practise (Linossier Olivier)

14.25-14.40 CET Time

Trade secret and the commercialization and protection of Intellectual Property in France (Stéphane Dassonville)

14.40-14.55 CET Time

Remedies in case of breach of trade secrets (Lothar Hofmann)

14.55-15.10 CET Time

Evaluation of the Loss in Trade Secret (Zach Li)

15.10-15.30 CET Time

Expert Panel 2: Litigation in Practise of the Trade Secret

Chair: Zach Li

Panelists: Isabella Corrias, Richard L. Thurston, Lothar Hofmann

2. Speakers

Hermann Knott, Partner at Andersen (Germany)

Aleman Marco, Director at Patent Law Division, WIPO (Switzerland)

Carlos Correa, Executive Director of South Center (Switzerland)

Linossier Olivier, President of the Eurasia Industries Group (France)

Johnson Kong, International Intellectual Property Commercialization Council (Hong Kong)

Francine Le Péchon-Joubert, De Gaulle Fleurance & Associés (France)

Zach Li, Senior Vice President at Alixpartners (Hong Kong)

Stéphane Dassonville, BMH Avocats (France)

Lothar Hofmann, Hofmann Law (Austria)

Richard L. Thurston, Duane Morris (USA)

Isabella Corrias, Roedl & Partner (Italy)

3. Welcome Remarks by SCLA

At the start of this Global Online Forum Mr. Tianze Zhang welcomed the speakers and participants and gave a presentation of the Swiss Chinese Law Association (SCLA).

Its vision is to be a forum and supporter of furthering the understanding and exchange between European and Asian countries. The two countries referred to in its name are a reference to the respective regions, thus not excluding, but inviting for lawyers, law firms, business enterprises and other organizations to join as members.

In line with its vision the SCLA promotes exchange between its members and with International organizations. SCLA is applying for an observer status with UNCTAD. It is organizing online fora and – when possible again – in-person conferences to allow the direct exchange of views, establishing personal contacts and share knowledge.

The SCLA also promotes the legal collaboration between China, Switzerland and European Countries. It is the editor of the Swiss Chinese Law Review which publishes articles reflecting the up-to-date legal aspects, e.g. covers current topics such as the legal impact of the COVID 19-pandemic. To sum up: SCLA membership provides excellent networking and business opportunities plus the chance to widen substantive knowledge and develop new legal products.

4. Slavery of the Workforce (Johnson Kong)

Then, Mr. Johnson Kong gave his presentation on slavery of the workforce.

4.1. What is Intellectual Property all about?

Mr. Johnson Kong started by highlighting the importance of transferring and sharing knowledge for innovation and the improvement of society. The recognition of Intellectual Property Rights allows people to share their knowledge.

4.2. What is a trade secret?

He went on explaining the “musts of trade secret”. These are: It must not be known to the public. It must have a value to the company presently or likely in the future. It must be kept secret. It must be documented. It must not be in the public domain. It must have an appropriate legal framework in place if shared with another entity. It must be protected by using administrative, legal and technical means. It must require access control.

4.3. A game changer

Then, in 2016 the US passed the “Defend Trade Secrets Act”. In 2018, China passed the Anti Unfair Competition Law and the EU Commission promulgated the Directive on Trade Secrets. This is a game changer because prior to this, judges looked at trade secrets as if it were a business matter. Since 2016/2018 trade secret theft is criminalized. In China there is an administrative procedure in relation to trade secrets. In this procedure against someone who allegedly stole a secret the issue may arise why it was possible to steal the information if it is a secret.

Mr. Johnson Kong continued by asking whose secret the relevant information is? And how do you prove the existence of a trade secret? It is standard that employers have their employees sign an NDA in relation to trade secrets. Does the signing of an NDA by an employee lead to this employee being trapped? And what is the standard for such NDAs. Do they need to be short or extensive? How do these new laws benefit society? Do they increase innovation? Innovation is the result of people sharing knowledge.

Employer-friendly regimes that protect trade secrets under current means show reduced employee mobility, preventing the circulation of ideas in an economy, and slow innovation. Non-compete clauses are very common in employment contracts and new trade secret laws, such as the US’s ‘Inevitable Disclosure’ Doctrine will further affect employee mobility.

The average tenure at jobs for employees is lower in countries without trade secrecy regimes. This gives evidence to the theory that there is higher employee mobility in countries without trade secret laws. However, in these countries there tends to be a lower degree of productivity. Nonetheless, according to statistics, people make a similar income as their counterparts in countries with more rigid trade secrecy regimes. This shows that in certain regions employees are being paid the same, although on a comparative level they are less productive than their counterparts in other countries. This should have a negative effect on the less productive country’s growth.

We are heading backwards due to inability to uphold the true principles of Intellectual Property to benefit society, observes Mr. Johnson Kong. We are limiting knowledge sharing if businesses just keep their secrets for themselves. We are limiting employees’ mobility if they cannot leave their company because they know about a trade secret.

4.4. It is time for best practices

There is a need of best practices in relation to Proof of Existence (PoE) of a Trade Secret, continues Mr. Johnson Kong. The community as a whole must agree on proper procedures reaching beyond just Administrative and Procedural means. This collective solution should be equitable and inclusive. In 2015, the International IP Commercialization Council launched a protocol on an International Knowledge Registry. Furthermore, the IP Commercialization Council and the WIPO Arbitration and Mediation Center collaborate to make available dispute resolution mechanisms to efficiently resolve trade secret disputes.

4.5. Discussion

During the discussion, Mr. Zhang asked a participant from India to give the Indian perspective. She answered that in India no such system like in the US exists. When enforcing trade secrets proof of existence and the preservation of the secrecy of the trade secret are a challenge. That is the reason why businesses are reluctant to go to court and they consider prevention to be better than cure by focusing on very tight confidentiality agreements. Then, Mr. Zhang asked a participant from Africa about his view. He explained that developing countries need access to knowledge to develop their capabilities. That is why they are not persuaded that regulation of trade secrets will be of benefit to them.

5. Public interest perspective in the Trade Secret

Then, Professor Carlos Correa gave his presentation on the public interest perspective in the Trade Secret.

5.1. Relationship between the Patent system and trade secret protection

Intellectual Property is not an end in itself, but a tool to achieve certain objectives in the interest of the society. The first international regime on trade secrets was adopted under the TRIPS-Agreement. In its Art. 7 it states that the very purpose of Intellectual Property is to ensure that there is a protection conducive to social and economic welfare. During the negotiations of the TRIPS-Agreement some States, such as India, argued that trade secrets were no Intellectual Property Rights, but a matter of contract law and should therefore not be included in the TRIPS-Agreement. These objections reflected the position of many scholars at that time.

In fact, many scholars considered that according protection to trade secrets would undermine patent protection.

The US Supreme Court considered in one case that there was no such risk since trade secrets are unpatentable inventions. However, the reality is that some businesses opt to keep inventions secret and decide against filing for patent protection because this would mean disclosure of their inventions. In Germany, some studies showed that many of the patents filed by the chemical industry were filed because of German regulations that give strong rights to the employees who were the inventors. Therefore, the argument by the US Supreme Court that trade secrets may only protect unpatentable inventions does not appear to properly reflect the reality. One of the underpinnings of the patent system is that the State will give a monopoly right in exchange for disclosure of the invention which does not happen in the case of trade secrets.

5.2. Characterization of trade secrets as property

Another concern by many scholars has been the characterization of trade secrets as property which is linked to differences in the understanding of the notion of property in the Anglo-American and the Continental legal systems. In the Anglo-American system the notion of property is more flexible whereas under the Continental systems the *numerus clausus* applies. Art. 39 of the TRIPS Agreement addresses the protection of undisclosed information. Art. 1 of the Agreement states that for the purposes of the Agreement undisclosed information is considered an intellectual property. However, in Art. 39 TRIPS there is no reference (as in the case of trademarks, for instance) to the concept of 'owner' of trade secrets. Rather, Art. 39 TRIPS refers to the persons in possession of the

undisclosed information. Therefore, trade secrets are not considered a property. They are rather subject to a monopoly of fact.

5.3. Justification for trade secret protection

What is then the justification for trade secret protection from the public interest perspective? Professor Correa referred to the justifications for trade secret protection by a Professor Dessemontet from Lausanne University. According to him there are three main theories. The contractual theory is the first one. However, this theory does not provide a sufficient justification because in many cases the protection of trade secrets is *ex lege* and not based on the existence of a contract. The second theory is based on the fiduciary relationship as contemplated under English law, in accordance to which there is a duty of secrecy which is imposed by the law itself. The third theory is based on unjust enrichment by the person who misappropriates a trade secret. This theory has been applied in many decisions by US Courts. Another theory is based on the investment in trade secrets. However, in many cases trade secrets are not developed on the basis of a deliberate investment. They are rather the outcome of routine activities. In Art. 39.3 of the TRIPS there is an indirect reference to investment, but not in relation to trade secrets (article 39.2).

There are many problems when it comes to justifying the protection of trade secrets from a public interest perspective. The first problem is that granting protection to a trade secret is like giving a “blind” right because you are giving protection to something you do not know about. Another problem is that there is no time limit to the protection of trade secrets as it is the case for patents. This is mitigated by the fact that trade secrets do not give a monopoly right as is the case for patents.

5.4. Compulsory licensing of trade secrets in the public interest

A further question is whether the possessor of a trade secret may be obliged by a governmental authority to provide trade secrets to a competitor. There are cases in the US where it was held that the public interest may be served by a compulsory license. In 2018, a report commissioned by the Swiss Département Fédérale des Finances recommended to the Swiss Confederation to establish compulsory licensing for technical data.

5.5. Discussion

During the discussion Mr. Zhang asked Professor Correa about the challenges of the protection of trade secrets in international treaties. Mr. Correa answered that the framework is likely to continue being unfair competition as it is under the TRIPS-Agreement because this framework allows to strike the balance between the public and private interest by according non-exclusive rights in the case of dishonest commercial practices. A participant from the UK then asked when does a secret cease to be a secret? When you take the formula 1 example: If one team develops a secret technology how to make the car go faster and then another team develops a similar idea. How many teams need to have developed a similar idea so the secret ceases to be a secret? Mr. Johnson Kong answered that this question raises the issue of identification of a trade secret which is unknown by definition of the TRIPS-Agreement. There should be a possibility to prove the existence of a trade secret without disclosure to enable the different Formula 1-teams to settle their dispute behind closed doors.

Observance by the reporter, Hermann Knott: What Mr. Johnson Kong has described is exactly the goal pursued by the EU Trade Secret Directive and the domestic implementing legislation in the EU Member States: Establish procedures for the normally public court hearings allowing for the trade secret not to be disclosed.

6. Trade secret and innovation

Then, Mr. Aleman gave his presentation on trade secrets and innovation. From the perspective of multilateral norms only a few apply to the issue of trade secret. One reference exists in the Washington Act (1911) of the Paris Convention of 1883 which sets out certain provisions for protection against unfair competition, but they focused on marketing, branding and indications of source. Art. 39 TRIPS Agreement provides for the protection of undisclosed information. Beyond these provisions, the issue of trade secret protection has been largely neglected in international discussions and there is a need for more attention and analysis in that regard.

The reasons for the recent interest in trade secrets are manifold: The digitalization has transformed everything into data. Trade secrets play a fundamental role in all collaborative business relationships. The mobility of the skilled personnel is increasing even at the international level. Finally, the increased vulnerability of information and data. All these reasons are also underlying the recent legislative developments in the US, the EU and China.

Common law countries and civil law countries have adopted different legal approaches to the protection of trade secrets. The Legislative Developments in the United States of America (USA Uniform Trade Secrets Act, UTSA Defend Trade Secrets Act, DTSA) have a very positive impact on the holders of trade secrets insofar as the protection of trade secrets is addressed at the federal level with a long list of remedies, e.g. whether injunctions are now available and the type of award that can be granted and the clear delimitation of the competencies of the District Courts in infringement cases. Coupled with a clear definition what is misappropriation, holders of trade secrets now have the weaponry to protect their information. The EU Directive sets Minimum Standards (EU Member States were required to transpose the EU Directive into national legislation by June 9, 2018) defines what kind of information is protectable: Technical information and Business information. By not only defining the scope of protection, but also setting out limitations the EU Directive on Trade Secret Protection strikes the balance between the private and public interests involved.

The economic importance of the protection of trade secrets is highlighted by recent studies which show that the use of trade secrets is higher than the use of patents in all kind of companies in most economic sectors and in all EU-Member States. And the more companies cooperate with others and the more far-away the partner of the cooperation is based the more companies rely on trade secret protection.

7. Expert Panel 1: Public and Private Interests in Trade Secret Protection in the Pandemic

Then, Mr. Hermann Knott, the Chair of Expert Panel 1, introduced the topic of the Expert Panel 1: Is protection of trade secrets furthering or hindering the public interest? The public interest could also be making knowledge/trade secrets available so that everyone can benefit. Or is the protection

of the private interest in keeping its knowledge secret more important because companies may be more inclined to develop and innovate when they can be sure that their innovations will be protected.

Mr. Aleman started by explaining that according to the incentive theory that plays an important role in Patent law the inventor shall be motivated to disclose his invention by according him an exclusive right which is considered beneficial for the society. The question is whether trade secret protection can be considered in the same way as positive for the society since, as opposed to patent protection, there is no disclosure-requirement. Recent studies show that patent and trade secret protection are not competing but are rather complementary.

Mr. Johnson Kong added a further argument against the view that trade secret protection is restricting innovation: Take the example of a company which holds a trade secret in relation to a process for a recipe. The company wants to license it. The licensee wants to know whether he is getting the full recipe. At the end of the day, it is again a question of proof of existence of the trade secret. Once this question is solved monetization of trade secrets is possible. And monetization allows commercialization. Mr. Knott asked whether licensing a trade secret created an increased risk of the trade secret to become public? Mr. Johnson Kong answered that when proof of existence is possible then the holder of a trade secret can prove that he/she was the first to develop this process for a recipe and settle the dispute with the unauthorized users of his/her trade secret.

Then, Mr. Knott asked Ms. Francine Le Péchon-Joubert to give the employment law perspective in particular whether employee invention laws rather give motivation to file a patent? She first pointed out that two possible French translation of trade secret existed: business secret and (technical) know-how (secret de fabrication). Instead of "Secret de fabrication" which dates back to the 1930ies and which is a criminal offence for an employee to disclose a *secret de fabrication*, the term know-how is used in France.

However, criminal know-how protection is rather rarely used. What is used in France is unfair competition. The French transposition of the EU-Directive on the protection of trade secrets will have an impact on employment law. Its Art. 3 clearly states that the Directive shall not affect the mobility of the employees. The French legislator transposed this Directive into the Commercial Code, but did not change the employment legislation. Mr. Knott asked whether she thought that employee's mobility is restricted because of confidentiality agreements? She answered that there were two recent cases where the employer alleged that there was a leak by an employee. In both cases, the French Courts considered that there was no trade secret because the information could be gathered in some other way.

Then Mr. Correa added a comment on whether the protection of trade secret is absolute or not. In the context of the Covid-19 pandemic trade secrets are very important in relation to protective equipment, vaccines etc. The question arises whether companies can be forced to share their know-how? Another point is the enforcement of trade secrets which is always a challenge for SMEs.

Mr. Zhang invited Mr. Ernesto Cavelier to share his point of view. He explained that technological ideas are very important and that there is a trend towards the protection of trade secrets, in particular in Singapore and Taiwan.

8. Introduction to the ESG (Environmental, Social, Governance) and AML (Anti-Money Laundering) standards in global practice

Then, Mr. Olivier Linossier gave his presentation on the ESG and AML standard in global practice. His focus is global value chains which also involve commercial and business secrecy. As illustration he chose a company operating in the mining business: Olimining is providing export services for mining businesses across the globe. Therefore, Olimining needs to match different legal aspects from different countries.

8.1. Legal and ethical constraints in global value chains

The value chain starts in the country where the mine is located. The next level is traders. Then comes the processing of the material. Then the wholesalers are involved. Before the final product is in the market it will be processed again. For instance, a Rolex-watch must comply with many rules stemming from international and local law. The local rules comprise tax law, labor law and environmental law. Furthermore, the Rolex-watch must comply with Swiss law because Rolex is based in Switzerland: The manufacturing and distribution of the watch needs to comply with Financial standards, Anti-Terrorism Regulation and Anti-Money-laundering law. Furthermore, the Rolex needs to comply with social standards in the form of environmental, social and governance (ESG).

8.2. The challenges of complying with such constraints

When organizing the compliance with these legal and ethical constraints in a global value chain the companies involved need to exchange information which is a challenge because the information shared also relates to secret information. When it comes to ESG the information shared also relates to the way the mine is operated, the type of process that is used etc. Therefore, manufacturing secrets and business secrets are affected.

Take the example of precious metals. At the end of the value chain figure banks and refiners which belong to the regulated sectors. Insofar, there is no problem in relation to the information exchanged. When the exporters, miners and investors start being involved, then matters get more difficult in terms of ensuring traceability, compliance and Anti-Money-Laundering. The risk is that multinational businesses at the end of the global value chain use the information about the mining process etc. in order to bypass the global value chain and to take control of it.

Against this background the following questions arise:

How do we rebuild trust along the value chain?

How can we secure international brands while protecting trade secrets?

Do we need an independent control and regulation body?

How do we protect small companies when implementing this control body?

8.3. Discussion

During the discussion Mr. Zhang invited Ms. Orit Gonen from Israel to give her point of view on special courts for trade secrets. She explained that in Israel most cases involving trade secret infringements are handled by the labor tribunals which, however, are not very experienced in the area. As a consequence, the Parties hire experts and then the Court appoints an expert. Therefore, she raised the question whether trade secret cases should go to IP-courts? Mr. Knott answered that in cases where the trade secret aspects overwhelms the employment aspects the case should go to special chambers.

9. Trade secret and the commercialization and protection of Intellectual Property in France (Stéphane Dassonville)

The next presentation by Mr. Stéphane Dassonville was about trade secrets and the commercialization and protection of Intellectual Property shown from the perspective of the legal provisions applying in France.

9.1. Definition of a secret

He started by giving a definition of a secret. According to his definition, a secret is an information, or knowledge, deliberately concealed which has a strategic value, or is otherwise valuable. It is not a new phenomenon. It rather existed already in the Middle Ages. A secret only exists if it is known to someone. On the other hand, the more guardians a secret has, the easier it escapes! Against this background the question arises how can you combine the needs of your business activity (everyday work), i.e. share information with your partners, and the imperative to protect your assets? Mr. Dassonville's recommendation is to **anticipate the risk** and to **be prepared to react** in case of any violation. There is no good reaction without a correct anticipation. There is no good anticipation without a perfect knowledge of the tools that you have to react to any violation.

9.2. Anticipation of the risk

The first steps are to identify and substantiate your trade secret. This includes evidence of the date of its creation. He further suggested putting in place reasonable protection measures to protect your assets. This includes the following measures:

- NDA
- Valid License agreement (also anticipate the termination/exit/end of license agreement)
- Reverse engineering clause
- Employment contracts
 - ✓ valid assignment clause in relation to creations to the benefit of the employer
 - ✓ Non-disclosure/ confidentiality clause
 - ✓ Non-competition clause

What are the risks if you do not anticipate? In order to illustrate these risks Mr. Dassonville presented three cases: The first case is about a former employee of an Airbus supplier. The supplier produces tools to build aircrafts. One former employee who was in charge of the manufacturing process, has started its own company during the employment contract and took 49.000 of documents from his previous employer before leaving. At the same date, the employer left the supplier, a business

terminated the partnership with the supplier. Against this background the supplier investigated and discovered the stealing of the trade secrets.

Another case involved a former employee in the fashion industry who was in charge of designing the whole collection. She moved to a competing company and presented the fashion collection developed within the course of her previous employment contract. The previous employer wanted to file a claim against the new employer. The former employment contract contained no valid IP assignment clause under French law. As a consequence, the former employee was entitled to transfer the IP in the collection to his new employer. The last case related to the end of a license agreement in fragrance industry: the question arose which IP-Rights for the same product are belonging to the licensor and which one are belonging to the licensee?

Mr. Dassonville explained that even with the utmost anticipation and protection, no strategy is watertight. One needs to keep in mind that disproportioned constraints may slow down your reactivity and your business and be costly and not adapted to the strategical value of the asset to be protected.

9.3. Be prepared to react

What are the tools available to collect evidence? In France there exists the so-called “*Saisie contrefaçon*” which allows to seize all infringing products and all documents and evidences relating to the infringement (and not only the infringing products), such as invoices, information about stock, supplier, distribution network, purchase price, sale price, margin, emails, letters, etc allowing to prove and substantiate the infringement and the damage and loss in front of a court. In relation to trade secrets the tools are based on unfair competition.

9.4. Discussion

During the discussion Mr. Dassonville explained that the term “trade secret” is not new in France. The legal bases for protection are unfair competition and parasitism which existed already before the implementation of the EU-Directive on the protection of trade secrets.

10. Remedies in case of breach of trade secrets

Then, Mr. Lothar Hofmann gave his presentation on remedies in case of breach of trade secrets.

10.1. Preservation of confidentiality of trade secrets in the course of legal proceedings

He started by explaining that you have to present your evidence in Court which may be a challenge in relation to trade secrets because you have to disclose it. Once it is disclosed its commercial value is lost. For this reason, Art. 9 of the EU-Directive on the protection of trade secrets sets out a rule according to which identified trade secrets in Court proceedings may not be used outside the Court proceedings.

10.2. Provisional and final measures

He went on explaining that Art. 10 of the EU-Directive on the protection of trade secrets provides for the possibility to move for provisional protection during the proceedings. The term “injunctions” is used for final court orders in the EU-Directive on the protection of trade secrets. The final measures are set out in Art. 12 of the EU-Directive on the protection of trade secrets. They include

- cessation or prohibition of the use or disclosure of the trade secret,
- prohibition of production, offering, placing on the market or use, importation, export or storage of goods,
- appropriate corrective measures with regard to goods, including recall of the infringing goods from the market, depriving goods of infringing quality, destruction of goods or, where appropriate, withdrawal from the market, provided that the withdrawal does not undermine the protection of the trade secret in question,
- destruction or delivery up of goods produced on the basis of trade secrets to the applicant.

As an alternative to provisional measures, there exists the possibility for the alleged infringer of continuing the use subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder.

10.3. Damages

In relation to damages, Art. 14 of the EU-Directive on the protection of trade secrets provides that such damages might be awarded, e.g. in the form of lost profits. When calculating damages non-economic factors might also be considered. As an alternative, the EU-Directive on the protection of trade secrets also provides for lump sum compensation with royalties that would apply, as a minimum. This alternative may be of interest when you are not able to prove the exact damages.

10.4. Discussion

During the discussion Mr. Zhang raised the question whether the EU-Directive on the protection of trade secrets is fair to all European countries. He addressed this question to a participant from Poland who answered that he does not see any problems in Poland in that regard because in Poland similar regulations exist. A participant from India added the common law perspective. Under common law a confidentiality club system exists in relation to court cases involving trade secret violation, i.e. only a restricted number of participants from the side of the plaintiff and defendant have access to the evidence.

11. Evaluation of the Loss in Trade Secret

The next presentation by Mr. Zach Li was about the evaluation of the loss in trade secret.

11.1. Common approach to measures of damages in IP disputes

He started with an overview on the common approach to measures of damages in IP disputes in international arbitration. There are two types of damages: Direct/general damages and indirect/consequential damages. The direct damages may be the reduction in value of the IP-Right in question

whereas the indirect damage would be the lost profit. The distinction is important because limitation of liability clauses may exclude indirect damages.

The three common approaches to measures of damages in IP disputes are loss of profit, account for profit and comparable royalty. The loss of profit approach looks at what the plaintiff would have achieved, but for the infringement. Profit equals revenue minus cost. The question arises what are the relevant sources of revenue? Does this include the revenue from ancillary non-patented goods? And what does cost include? Of course, the manufacturing cost. What about overhead cost, financing cost, staff cost? You need to understand the IP and the market: What would the market look like but for the infringement?

The second approach is account for profit: The idea is to calculate the damage based on what the defendant has achieved, as a result of the infringement. The equation is the same as for loss of profit, but you look at it from the perspective of the infringer. The challenges of this approach are twofold: The allocation of the IP that is in breach and the access to the information to make this determination.

The third approach is the comparable royalty approach. This approach is based on a hypothetical negotiation between a willing licensee and a willing licensor and looks at what would be the appropriate royalty rate. This approach aims to find established royalty rates in the market.

Further to these three measures of damages, statutory and punitive damages may be available depending on the jurisdiction.

11.2. Summary of the Guidelines on Damages Calculation in IP Disputes published by Beijing Higher People's Court in April 2020

The Guidelines on Damages Calculation in IP Disputes issued by Beijing Higher People's Court in April 2020 cover the three common measures to damage calculation explained above. In summary Plaintiffs can claim damages based on:

- Plaintiff's losses;
- Defendant's illegal profits; and
- A reasonable license fee.

The underlying concepts are comparable to loss of profit, account for profit and comparable royalty. The differences relate to the calculation of profits: If the infringer is determined to be a professional infringer, the lost profit would not be the operating profit but the sales profit (Sales profit = sales revenue – cost of sales – selling expense – tax; Operating profit = sales profit – admin expense – financing expenses).

These Guidelines also provide for statutory and punitive damages. Statutory damages are applied when all three approaches cannot reasonably estimate the plaintiff's damages. Punitive damages can be granted in a range of 1x-5x of the calculated damages if the defendant is in bad faith and the infringement is serious.

11.3. Conclusion

He concluded that it depends on the evidence available and the merits of the case and on the legal strategy which measure of damages is the most suitable.

11.4. Discussion

During the discussion Mr. Zhang raised the question whether there existed specific ways of calculating damages in cases involving violation of trade secrets in Italy. A participant from Italy answered that the Italian Criminal Code contains provisions which punish the unlawful acquisition of secret documents including computer programs. The damage calculation is then referred to the Civil Courts. Mr. Thurston added the US-perspective. The US-approaches are also loss of profit, unjust enrichment based on the Defendant's use of the misappropriated information, potentially punitive damages.

12. Expert Panel 2: Litigation in Practise of the Trade Secret

Then the chair of Expert Panel 2, Mr. Zach Li, introduced the panelists: Ms. Isabella Corrias, Mr. Richard L. Thurston, Mr. Lothar Hofmann.

12.1. Course of action

Mr. Zach Li passed the question on the course of action in IP-disputes to Mr. Lothar Hofmann. He explained that there exists an important difference between the common law and the continental law system when you look at collection of documents, pre-trial discovery etc. Ms. Corrias added that in Italy trade secrets are qualified as property rights since 2010. Furthermore, in Italy the disputes concerning IP-Rights belong to the IP specialized sections in the Courts. Mr. Thurston added that it depends on the complexity of the case. The strategic planning before you bring an action is very important. And you need to understand the differences between the continental law and common law systems especially when it comes to fact finding.

12.2. Fact finding

Mr. Thurston further explained that the East Asian Courts are based on continental systems. However, the Courts have a certain degree of flexibility to make specific requests to produce documents. You may also be able to get access to information through the administrative process. Mr. Hofmann added that pre-trial discovery under common law is really an advantage for the plaintiff because he may request information from the defendant which he may not request in a continental system. Ms. Corrias added that it is possible in Italy to request fact-finding orders where the plaintiff has serious grounds justifying his claim and can identify the relevant documents. It is also possible to request the Court to order the defendant to provide elements for identification of persons involved in the production and distribution of infringing goods. In such circumstance the Court shall take measures to safeguard the confidentiality.

12.3. Confidentiality

In relation to confidentiality Mr. Thurston added that he had case where the Beijing Supreme Court allowed the admission of transcripts and information that was being developed before a Californian

Court as part of the evidentiary process. Mr. Thurston also highlighted that one needs to keep in mind that in the US under the First Amendment there exists a right to public access to all information at trial. Against this background you need to stipulate a confidentiality agreement.

12.4. Damages

In relation to damages Mr. Knott asked about the panelists' perspective on the license analogy approach, i.e. looking at the license fees that would have been due under ordinary circumstances. Mr. Hofmann explained that if the trade secret is disclosed this is probably not reflected in royalties. Insofar trade secrets differ from patents where the technology is disclosed anyhow. Mr. Thurston added that in a case of massive misappropriation of trade secrets and where the defendant had incorporated that information into his manufacturing tools a hypothetical license is possible. Ms. Corrias added that in Italy the owner of the trade secret may also claim the recovery of the profit obtained by the infringer.

13. Litigation in the Practise of Trade Secrets: A Corporate Perspective

Complementing the envisaged Agenda, Mr. Thurston gave a presentation on Litigation in the Practise of Trade Secrets from a Corporate Perspective. He based his presentation on experience as in-house counsel for Texas Instruments and TSMC, the world's largest semi-conductor manufacturer with plants in the US, China, and Taiwan.

13.1. Litigation Challenges: Increasing Complexity

There are significant challenges when proving trade secrets. When he began the preparation of his case, he actually had no direct proof of trade secret misappropriation other than a chip which was identical to a TSMC-chip. The key issue was meta data. The meta data he had showed that the competitor acted deliberately.

13.2. Case study

In the TSMC vs. SMIC case (2003-2009) the scope/scale of SMIC's trade secret theft (committed during 2000-2002) was massive. The case involved 5 TSMC manufacturing plants including a Singapore joint venture; R&D data; customer information; semiconductor equipment; hiring of employees; etc. The Initial litigation strategy took 9 months to develop because multiple jurisdictions were involved (China (2006-09), Taiwan (2002), California (Federal (2003-4) and State (2003-05; 2005-09), and ITC (2004)). The end goal was a trade secret case but initially, he had no hard evidence of trade secret misappropriation, so he first had to file case (employee raiding) in Taiwan, and patent infringement in US Federal Court. SMIC misappropriated massive amounts of TSMC information directly from at least 4 separate technology platforms. During 2006 litigation, SMIC admitted to having more than 550,000 pages of TSMC documents. TSMC started the 2006 litigation with more than 1,379 trade secret items. 94 trade secrets went to trial in 2009. And 93 trade secrets were found to be misappropriated by the Jury.

The volume of discovery, nearly all under various protective orders, included the production of 8.4M pages of documents by TSMC, SMIC produced 7.5M pages. In that case there were 264 depositions. Out of 500 Court orders 75 % were discovery related. The other 25 % dealt with confidentiality. The background is that the United States has a strong presumption under common law and the 1st

Amendment to US Constitution of public access to evidence admitted at trial or considered by court. Therefore, the entire manufacturing process of TSMC was affected.

13.3. Discussion

During the discussion Mr. Zhang asked Mr. Thurston how he collected evidence from the Chinese companies. He answered that the Chinese companies were doing business in the United States. Against this background he was able to get ITC and Court orders. Then Mr. Zhang asked what were the biggest challenges? One of the challenges was to coordinate the pleadings and filings between California and Beijing.

14. Closing remarks

Finally, Mr. Zhang and Mr. Knott gave their closing remarks and thanked everybody for participating in this fascinating Forum. Mr. Zhang invited the contributors and participants to continue the discussion by contributing to the Swiss Chinese Law Journal.

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sgd. Hermann Knott
sgd. Martin Winkler