

Copyright © 2016 Law Business Research Ltd. All rights reserved.

87 Lancaster Road, London, W1P 1QQ, UK | Tel: +44 207 229 1188 / Fax: +44 207 229 6910

<http://www.laccanet.com> | editorial@laccanet.com

Friday, 10 June 2016 (4 days ago) • Eleanor Warnick • Strategy and management



In a digital age where cyber breaches are increasingly common, safeguarding trade secrets has never been so difficult – or important. With this in mind, LACCA analyses regulation and enforcement for protecting these secrets across various jurisdictions in the Americas and asks what GCs can do to better protect their companies from harm.

In an increasingly competitive business environment, preserving trade secrets is crucial for a business' survival. From strategic information and client lists to unique designs, recipes and algorithms, trade secrets can place a business head and shoulders above its competitors. Losing such information to rivals can be catastrophic. The potential fall-out can vary from the loss of competitive edge and stake in the market to mass layoffs or even bankruptcy, as well as less tangible losses such as reputational damage. Indeed, a 2016 survey by the Association of Certified Fraud Examiners (ACFE) examined 2410 cases of occupational fraud in businesses across the world and found costs amounting to US\$6.3 billion.

Given that the stakes are so high, businesses must be ever more vigilant to safeguard important information and mitigate potential risks. However, in today's digital marketplace, where cyber fraud is rife, this is increasingly difficult. As commerce becomes more global, sharing important information across borders makes companies vulnerable to interception unless sufficient security controls are in place. Aside from outside threats, there is also a risk of employees taking trade secrets to competitors according to Stefan Mentzer, partner at White & Case LLP.

“The most common litigation cases involving trade secrets tend to involve information an employee shouldn’t have access to that is leaked to a competitor,” he says.

Defending trade secrets

IP litigation is on the rise globally and many lawyers are calling for more stringent legislation to defend company trade secrets. “There is an increased global awareness of the value of trade secrets and need to protect them by implementing effective legislation,” says Mentzer. Last month, the European Union and the US approved new laws to deter the illegal disclosure of business secrets and introduce strict penalties for distributing such information without permission.

US President Barack Obama signed off the Defend Trade Secrets Act last month on 11 May, which brings intellectual property theft under federal law. Previously, such matters would only have been tried by state courts. David Herrington, counsel at Cleary Gottlieb Steen & Hamilton LLP, believes this will allow for “more uniformity and consistency” in the way IP cases are treated.

The new law also includes a provision for companies to sue individuals or companies who steal commercially sensitive information overseas. In a digital world where threats could come from any part of the globe, Eduardo Vidal, VP and general counsel at iCrowdNewswire, believes that having the ability to protect trade secrets abroad is extremely important. “The government needs to take an active role not only when our trade secrets are stolen from abroad, but also when we are victims of cyber-warfare from abroad,” he says. The clause for US companies to sue if their trade secrets are stolen abroad could also prove beneficial for Latin American companies headquartered in Miami. If they are involved in an IP dispute, companies may be better off with a trial in the US than in Latin America, partly due to more stringent legislation, but also because of more “efficient and aggressive enforcement mechanisms”, according to Sergio Legorreta, principal partner at the Mexican division of Baker & McKenzie LLP and head of intellectual property for Latin America.

Despite the increased protections offered by the new law, lawyers are divided as to whether or not this will spark a rise in IP litigation cases. Herrington expects to see an uptick because companies can now file civil action cases in federal courts, and not just state ones. “Litigation may be a more appealing option in a federal court than a state one due to the level of sophistication and high quality of

judges,” says Herrington. “Therefore, I would expect to see a rise in civil action suits.” Other lawyers argue the new act could lessen the load of IP cases because it lays down a clear set of guidelines which help companies protect themselves against fraud, and act as a preventative measure to stop companies from needing to go to court in the first place.

Lack of enforcement

While the US pushes forward with more rigorous laws, there continues to be a lack of legislation and enforcement for defending trade secrets in Latin America. Enforcement is particularly problematic due to the lack of previous cases involving trademark law, which generates uncertainty about how a business will fare in the courts and “makes litigating against trade secrets not worth the effort”, says Legorreta. The lack of legal precedent is exacerbated by more deep-seated problems in some legal systems such as “the saturation of the court systems, inexperience of the courts, lengths of the trials, lack of resources for courts to prosecute”, he says.

In Mexico, even though IP legislation shares many characteristics with the US law due to shared trade agreements such as the Free Trade Agreement (FTA), the North American Free Trade Agreement (NAFTA) or more recently, the Trans-Pacific Partnership (TPP), the law does not appear to be widely enforced. “This could be explained by the fact that many companies find it difficult to provide evidence that they have a trade secret [to the courts] while also making sure that this information is kept secret,” says Marco Tulio Venegas, partner at Von Wobeser y Sierra SC. According to a report published by the Global Intellectual Property Centre (GIPC) in 2013, 97 per cent of trade secrets theft cases in the country go unpunished.

South of the equator, there is some ambiguity about what constitutes a trade secret, let alone how the law might be enforced. In Brazil, there is no specific regulation dealing exclusively with trade secrets except to say that anyone who discloses “confidential information” is committing a crime. However, the law does not stipulate exactly what kind of information is deemed to be confidential. Jaques Labrunie, partner at Gusmão and Labrunie Advogados, says there is a “blurred line” between what information is a trade secret and what is normal for employees to have access to when going about their day-to-day business.

As a direct result of this uncertainty, there are few known cases involving trade

secrets in Brazil and “the definition of a trade secret comes mainly from scholars”, says Antonella Carminatti, partner at BMA - Barbosa, Müssnich, Aragão.

Given that the definition of a trade secret is so hard to pin down, “although the Civil Code has some remedies to try to reduce the loss from the theft of know-how, it is often impossible to present compelling evidence of such a practice [in court],” says Carlos Pinheiro-Torres, associate at Tauil & Chequer Advogados in association with Mayer Brown.

Meanwhile, the Chilean Congress is considering a “complete overhaul” of its IP law, says Alfredo Montaner, partner at Sargent & Krahn. A new draft law containing improvements was submitted to Congress for discussion in April 2013 but its publication has been delayed to bring Chile’s IP law in line with the TPP agreement, which includes a provision to enforce the protection of trade secrets. Montaner welcomes the new law, which he hopes will prompt businesses to be more aware of IP issues and guard their trade secrets more closely. “At the moment, there is little awareness about the importance of trade secrets to both employers and employees and so the company policies to protect them are inadequate,” he says.

Watch your back

Irrespective of how trade secrets are regulated and enforced in different jurisdictions, there are many steps in-house counsel can take to minimise the risk of their business’ trade secrets being stolen. As well as taking physical measures such as marking documents as ‘confidential’ or restricting access to certain areas, investing in technology to protect a company’s data is crucial. “Data protection is key to keeping confidential digital information away from the competition,” says Pinheiro-Torres. There are a number of practical steps companies can take to safeguard important information from competitors, he says. To hide information from the public view, they can invest in encryption software, passwords and paywalls. To make data more difficult to copy, they could fragment or encrypt the data and ban employees from bringing in storage media to work.

Although it is occasionally necessary to share confidential business information with third parties and employees, it is important to remind them not to share it. When dealing with third parties, any confidential information should be shared as a non-disclosure agreement and only distributed on a “need-to-know basis”, says Mentzer. Similarly, as part of the company’s internal policy, employees should be

made to sign a confidentiality agreement so they are fully aware that distributing information about the company without permission is unlawful.

As well as helping to prevent IP disasters, taking concrete measures to protect trade secrets could also strengthen a company's case if they are involved in a lawsuit for IP theft. Under US law, "trade secret cases depend on the company having taken appropriate steps. The first question the court will ask is: what did you do to protect those secrets?" says Herrington. Similarly, in Brazil, taking measures to keep trade secrets safe is likely to strengthen a lawsuit. "Due to the ambiguity over the way confidentiality is defined, judges tend to look into the companies' practices to see how they protect such information," says Carminatti.

The new US legislation and recent updates to the EU trade secrets directive may convince legislators in Latin America to tighten their regulation to protect trade secrets, especially in light of digital threats. But while companies wait for Latin American legislators to catch-up, they can take the matter into their own hands. "Businesses should remember that effective protection starts in-house", says Tulio Venegas. "They should bear in mind that trade secrets, like other forms of intellectual property, are assets and require hard work to maintain them," he says.