



Date: 21st August 2015

Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

Responsible Reporters: by Sarah MATHESON, Reporter General John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General Yusuke INUI, Ari LAAKKONEN and Ralph NACK Assistants to the Reporter General

National/Regional Group	CA-Caribbean Regional-Group
Contributors name(s)	Edy Guadalupe PORTAL
e-Mail contact	egportal@portallaw.com
Date	14-07-2015

I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

yes
Please comment.:

Trade secrets are regulated by the Salvadorian Intellectual Property Law, and the Penal Code. They are not considered a restraint to trade.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

The Intellectual Property Law determines that for knowledge to be considered a trade secret the employee must be made aware by the trade secretowner of its nature, therefore, any skill or knowledge acquired during the course of employment if not declared by the employer as trade secret should not be considered so.

The employer also has the burden of taking the necessary measures in order to safeguard the trade secret, therefore any information which is not safeguarded may be considered as of public nature or

disclosed.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?
yes
If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

There are no legal impositions to employees in regards to confidentiality, but confidentiality agreements are part of the regular commercial practice. Accordingly, this will depend on the contract, but in general terms, the lack of confidence from an employee can be considered as lack of trust and therefore the employer is able to terminate the contract based in this fact. Nevertheless, in regard to a trade secret, if an employee discloses a trade secret the employer can file a criminal action based on this disclosure even though it is not reflected in the contract because the trade secret is protected by Law, this means that it does not matter if the contract does not establishes specific clauses in regards to the trade secrets, taking into account that the trade secret is already protected by Law.

Again, this will depend on the contract. In general terms, the contract must reflect the kind of information that is considered as confidential. If confidentiality clauses are reflected in the contract these clauses are considered as the law between employer and employee. Therefore, it is highly recommendable to sign confidentiality agreements with employees in order to avoid the disclosure of trade secrets and any other confidential information. The disclosure of confidential information is considered as a felony in the Criminal Code in article 230, and it has a punishment of six months to two years of prison.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

There is no a specific period of time in which the employee should keep the duty of confidence in regard to trade secrets. Accordingly, the employee must not reveal the trade secret in any time because this will be considered as a criminal infringement. Ex-employee do not have a duty of confidence, nonetheless, the statute of limitation for a criminal action based on trade secret disclosure is of 2 years, therefore an ex-employee should not disclose any trade secret before two years have passed after leaving the former employment.

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?
yes
If yes, is there any distinction between the types of knowledge they can use?:

Workers may use any knowledge acquired during their prior employment, as long as such knowledge is not considered a trade secret. Article 177 of the Intellectual Property Law defines trade secret as all information with a commercial value due to its industrial or commercial application, which is kept by a person as confidential, and which may generate or maintain a competitive advantage, and which is safeguarded in order to keep its confidentiality and to which access has been restricted. Accordingly, if confidentiality and non-compete agreement is signed, the worker will be able to use the knowledge in the new employment. Again, this will not apply to trade secrets and confidential documents.

5)	Are certain employees subject to a higher obligation of confidentiality / non-use?
	<p>yes</p> <p>If so, which employees, and what is the rationale for any distinction between employees?:</p> <p>Managerial positions are subject to higher obligation of confidentiality. The Labor Code establishes that managerial positions can be fired due to the loss of confidence by the employer; this loss of confidence may include the disclosure of trade secrets and confidential information or confidential documents. Nevertheless, any employee that has been in contact with a trade secret or confidential information can be subject to a criminal action based on the disclosure of the trade secret or confidential information or confidential documents.</p>

Aspect (ii) - Ensuring confidentiality during Court proceedings

6)	What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?
----	--

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a)	restricted access to the hearing and / or evidence;
	<p>Civil hearings are public and the Civil and Mercantile Procedures Code does not regulate restricted access hearing.</p> <p>The Penal Code allows restricted access hearings for certain cases, but it does not regulate trade secret related matters to that regard.</p>

b)	disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
	Does not apply.

c)	non-confidential versions of documents being provided to all except authorised individuals;
	Does not apply.

d)	only non-confidential parts of any judgment / decision publicly available?
	Does not apply.

7)	If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?
	Does not apply.

8)	Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?
----	--

Salvadorian Intellectual Property law grants the trade secret holder the right to claim damages, but does not determine if the judge would be able to issue a restrictive order as part of the judgment.

The Penal Code does not grant the judge the faculty to issue a restrictive order, nonetheless, a new violation of the trade secret would be considered a new offence and hence aggravating circumstances would be taken into consideration in a second judgment.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

The trade secret holder must evidence the existence of the trade secret and that the necessary safeguard measures were implemented in order to protect the trade secret, as well as the disclosure of the trade secret.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

For a breach of confidence case, the element to be proved would be the disclosure of the confidential information and the nature of such information.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes
If so, in what circumstances? :

The subject matter is limited to the trade secret. The ex-employee or new employer may generate new knowledge as long as the ex-employee does not directly construct based on the prior knowledge of the trade secret but on his own acquired knowledge. However, in regards to constructive knowledge there are no regulations in El Salvador. Therefore, we must use the valid articles from the Intellectual Property Act in order to give a possible answer. According to the Intellectual Property Act, the trade secrets shall enjoy legal protection whether or not they are incorporated in a physical medium. This means that the trade secret is always protected. This also means that if an ex-employee transfers this knowledge, or if a third party is using this knowledge, knowing that this is actually a trade secret, the third party can be imputed for breaking the trade secret. Nevertheless, since no regulations are established neither in the Intellectual Property Act nor in the Criminal Code, this will depend on the criteria of the Judge.

13) Does your jurisdiction provide for discovery?

no

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes
If yes, what is this threshold?:

Due to procedural principles applicable to the Civil and Mercantile Procedures Code, both parties have the right to file any evidence they deem necessary to strengthen their position, so even though there is no reversal of the burden of proof, the defendant may file evidence to demonstrate that there has not been a violation. There is no threshold for the defendant for filing evidence. In fact, witnesses' declarations are allowed, as well as any other kind of evidence such as documents. In the end, the Judge is the one who will give an specific value to the evidence filed by both parties.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

The Civil and Mercantile Procedures code allows for a party to request from the judge to secure evidence. In order to do so, the requesting party is made to pay a bond, which serves as a preventive measures against abuse. The securing of the evidence applies when there is a risk based on the human conduct or a natural act that possibly jeopardizes the source of the evidence. This securing of the evidence can be requested by both parties and the judge will decide if the securing of the evidence is acceptable or not.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Seizure are used solely for the purpose of securing evidence.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

yes

If so, what limits? :

Currently Salvadorian Law does not establish limits in regards to unlawful restraints, nonetheless a confidentiality agreement would be deemed unconstitutional in case it stated a prohibition to execute similar works after leaving a company. Limits should be determined in order to clarify the extent and reach of confidentiality agreements in regards to trade secrets.

We do not consider that limits should be placed against the protection of trade secrets, basically because the nature of the trade secrets is based on the fact that the protection is conferred even though the trade secret is not written. Accordingly, it is important that local authorities understand the nature of the trade secrets in order to protect this intellectual property asset against improperly acquired trade secrets.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Yes, the obligations and their consequence should be proportional to the level of knowledge and/or responsibility exercised in the corporation, as the damage which can be made by a managerial position is more likely to be greater than that made by an operative position.

The Penal Code does not make any restrictions to that regard, but from a civil liability point of view higher ranking officials responsibility should be greater than that of lower ranking personnel.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

The defendant should be required not to use the trade secret after the trial, and in case it is used, a new civil or criminal action can be filed against such defendant.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

Information developed prior to the trial should not be subject to confidentiality, as it never constituted a violation of the trade secret.

Information developed after the defendant came in contact through the trial with the trade secret should be subject to confidentiality, and the use of any information comprised in the trade secret would constitute a violation, therefore granting the trade secret owner the faculty to file a civil or criminal complaint.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes

If yes, in what circumstances? :

Salvadorian Law does not regulate in regards to constructive knowledge of a trade secret, nonetheless, as long as the new knowledge could not be reached without the prior knowledge of the trade secret. Accordingly, constructive knowledge should be imputed to the new employer if it is actually the same trade secret that the ex-employee improperly acquired. Unfortunately the Law only provides measures against the one who discloses the trade secret, but nor for third parties that are actually using the trade secret for their own benefits.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Yes, they should be available. As long as the trade secret owner is able to prove his legitimate right over the trade secret, and the constitutional rights of the defendant are not affected, seizure orders should be available. The hearing to decide whether or not they are granted should take place ex parte in order to prevent the hiding of evidence.

b) Should pre-action evidence seizure orders be available?

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

Such trade secret as long as they are original and novel, should also be protected, and any use of such trade secrets or their disclosure, would grant the defendant the faculty to file legal actions against the plaintiff. Protecting a trade secret must be available for all, and if the defendant has other trade secrets developed by its own, then it must be protected against third parties infringers, including the claimant during the course of a seizure.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

The principles which should be taken into consideration are: The trade secret holder compliance in regards to the obligation to safeguard the trade secret, failure to comply with such obligation should result in failure of the legal action.

Any agreement containing clauses that restrain an employee from working in a similar field.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

Compensation due to the injury should be granted as well as the return of the trade secret to its legitimate owner.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

No, I consider that they should not be released under any circumstances, and the statute of limitation for any civil or criminal action should determine the length of their obligation.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

During court proceeding, the trial pertaining to trade secrets should have restricted access. The information should be available on a need to know basis only to the legal representatives of the parties, experts and the judge.

The trade secret documents should be safeguarded by the judge.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

If the enforcement action fails, the defendant should be allowed the non restricted use of the information, as it was not obtained through misappropriation.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

The principles should be damages, loss of profit and moral damages.

32) Should courts award moral damages?

yes

If so, how should they be quantified?:

they should be quantified based on the affectation to the corporation, it's commercial fame or good name, and the negative effect that the disclosure of the trade secret would generate.

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

Precautionary measures such as the seizure of evidence should be available as well as restrictions of use.

34) What restrictions should apply to the use of seized evidence by the claimant?

If a seizure takes place the claimant should pay a bond in order to guarantee damages to the defendant in case the legal action fails.

Restriction of use could be applied as long as sufficient guarantee through a bond has been granted.

Summary

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.

AIPPI